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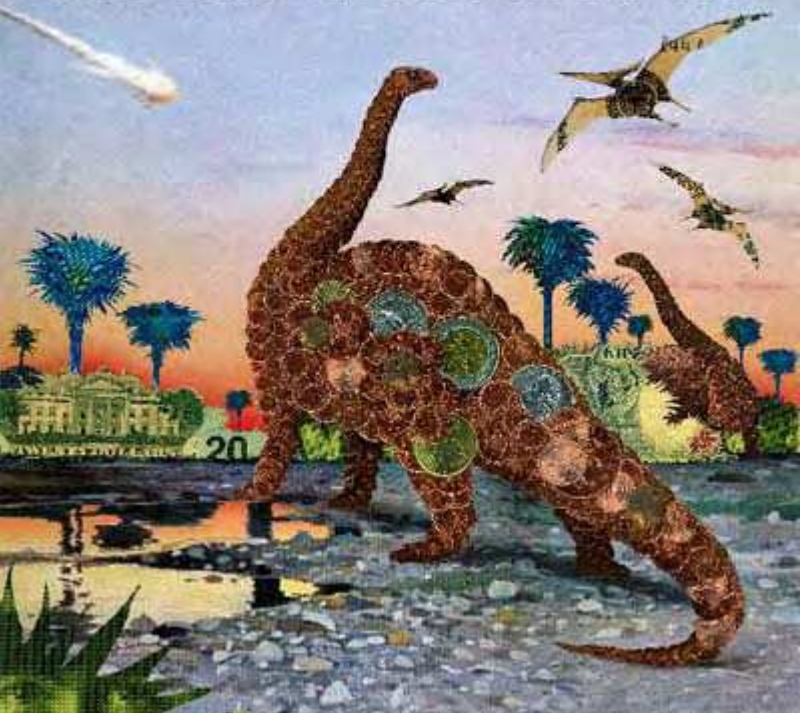

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Welcome the coming age of electronic money, but safeguard the anonymity of cash: leader

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Politics this week

Feb 15th 2007
From The Economist print edition

EPA

After tense talks in Beijing, **North Korea**,which in October tested a nuclear weapon, promised to shut down its main nuclear reactor in return for fuel aid. The talks, involving America, China, Japan, Russia and South Korea, also led to an agreement to resume ministerial talks between the two Koreas, and to take steps towards normalising America's relations with North Korea. But the agreement makes no explicit mention of nuclear weapons, dismantling nuclear facilities or disposing of nuclear materials. See article

The foreign ministers of **India**, **China** and **Russia** met in Delhi to discuss the state of the world. It was the first such high-level meeting between China and India since China alarmed potential adversaries by testing an anti-satellite missile last month.

In a surprising presidential election in **Turkmenistan**, Kurbanguly Berdymukhamedov won only 89% of the vote. Mr Berdymukhamedov had been acting-president since the death in December of Saparmurat Niyazov, who had ruled the country for more than two decades. The opposition was not allowed to field any candidates.

Malaysia's prime minister, Abdullah Badawi, held talks with the Thai junta and offered to mediate to help end the Muslim separatist insurgency in **southern Thailand**. See article

Ma Ying-jeou, chairman of the Kuomintang, **Taiwan's** main opposition party, resigned after being formally charged with corruption offences. But he also announced his intention to stand in next year's presidential election. See article

A house divided

The two main **Palestinian** factions, the Islamists of Hamas and the secular Fatah, agreed in Mecca to form a unity government in the hope of stopping bloodshed between the groups' militias and of ending a year-long international boycott of the Hamas-run Palestinian government. Hamas refused to recognise Israel but said it would “respect” (not precisely accept) past Palestinian agreements with it. See article

Just as **Iraq's** prime minister, Nuri al-Maliki, was making a speech to mark the anniversary of the bombing of one of the Iraqi Shias' holiest shrines, in Samarra, a huge bomb went off in Baghdad, killing at least 80 people. Other bombs continued to make sectarian mayhem, as America's promised “surge” of thousands of extra troops into Baghdad was set to begin. See article

EPA

Seven simultaneous bombings killed six people near **Algeria's** capital, Algiers. A group calling itself the al-Qaeda Organisation in the Islamic Maghreb, perhaps a new version of the previously better-known Salafist Group for Call and Combat, said it was responsible, raising fears that al-Qaeda has activated a north African front.

Guinea's president, Lansana Conté, who has been facing growing demonstrations against his 25-year-old dictatorship, declared martial law amid increasing violence. Most businesses have shut down; some embassies have told their citizens to leave.

Ugandan MPs approved the contribution of 1,500 troops as part of an African Union peacekeeping force in **Somalia**. They are due to replace the Ethiopian troops that helped to overthrow Somali Islamist militias last year. Burundi, Ghana and Nigeria have also promised troops.

The default option

Ecuador's Congress voted to approve a proposal by the country's new leftist president, Rafael Correa, for a Constituent Assembly to write a new constitution. Meanwhile the government, which has talked of defaulting on its debt, said it would make a payment that falls due this week. See article

Bolivia's socialist president, Evo Morales, led troops into a tin smelter and declared its nationalisation. The smelter's owners, Glencore, a Swiss mining firm, said they would claim compensation. The government claims the smelter's privatisation in 1999 was fraudulent. See article

In need of sum ideas

The Socialist candidate for the **French presidential election**, Ségolène Royal, revealed a decidedly left-wing presidential platform. It included many promises of more public spending, but little on how to pay for it all. See article

French police arrested 11 suspected terrorists. Nine of them were allegedly al-Qaeda members thought to have been recruiting fighters to join the insurgency in Iraq. In **Spain**, the trial began of 29 people suspected of involvement in the 2004 Madrid train-bombings.

George Bush said **Russia** and **America** could still co-operate over many things despite an angry speech by Vladimir Putin, who denounced American militarism at a conference in Munich. See article

The European Parliament endorsed a report criticising several European governments for complicity in secret CIA flights used for **extraordinary renditions**. These included the kidnap and transport of suspected Islamist terrorists to third countries, in some of which they were tortured.

Portugal is to legalise abortion during the first ten weeks of pregnancy, after 59% of voters backed the change in a referendum. The turnout was below 50%, so the result was not legally binding, but the government pledged to act on the result in any case.

EPA

No more rubber stamps

The **House of Representatives** held a debate on Iraq. If, as was expected, a non-binding resolution opposing the deployment of extra troops is passed (the Democratic majority was expecting the support of some Republicans as well), it would represent the first time Congress has repudiated George Bush's policy on the war.

Mitt Romney announced he was entering the race for president. The former one-term Republican governor of Massachusetts, who is a Mormon, has been steadily polishing his credentials with social conservatives, especially over the issue of gay marriage. See article

Meanwhile, **Barack Obama** officially launched his campaign from the steps of the Old State Capitol in Springfield, Illinois, the place where Abraham Lincoln forged his political career.

A year after Larry Summers said he was quitting the job amid a furore over his comments on differences between the sexes, **Harvard University** picked a new president. Drew Gilpin Faust is the first woman to hold the post.

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Business this week

Feb 15th 2007
From The Economist print edition

A cost-cutting programme at **Chrysler** was unveiled. The troubled carmaker made an operating loss of $1.4 billion last year and now more than 13,000 jobs are to go. Chrysler's parent company, DaimlerChrysler, said it could find partners for its North American division, but a sale was not ruled out either. See article

The European Court of Justice's advocate-general rejected the German law protecting **Volkswagen** from takeovers. This was seen as boosting the potential of a bid for VW from its biggest shareholder, Porsche. It also solidifies the role of Ferdinand Piëch, who is a member of the Porsche family, as VW's chairman. The premier of Lower Saxony, which is VW's second-biggest shareholder, acknowledged this by changing tack and ending his opposition to Porsche having a third representative on VW's board.

FirstGroup, a British bus and train operator, expanded its American business by agreeing to pay $3.6 billion for **Laidlaw**, which specialises in school and inter-city bus services. If successful, the deal will give FirstGroup a sizeable chunk of America's school-bus market, but there was speculation it may sell Laidlaw's other concern, the iconic **Greyhound** bus line.

It makes the world go round

A plan to boost the use of **mobile money** was unveiled at a telecoms conference. The project, set up between a group of mobile-phone operators and MasterCard, is targeted at migrant workers and enables funds to be securely transferred from one phone to another back home, where the credit can be spent. See article

Vodafone won the bidding to take control of **Hutchison Essar**, a mobile-phone operator in India, agreeing to pay $11.1 billion for the 67% stake held by a subsidiary of Hong Kong's Hutchison Whampoa. Arun Sarin, Vodafone's chief executive, said the deal would be “transformational” for his company, which thinks it can increase profits by acquiring phone operators in high-growth developing markets. But some of Mr Sarin's critics said he had paid too much.

A court in Brussels ruled that **Google** had infringed the copyright of **Belgian newspapers** by publishing links to their stories on Google News. The case, in which the newspapers argued that the internet company was giving away articles they were charging for, was closely watched by other press proprietors. Google is to appeal.

Delta Air Lines made a fourth-quarter net loss of $2 billion as it booked charges related to its bankruptcy- restructuring plans.

Better to have loved and lost

NASDAQ's $5.3 billion hostile bid for the **London Stock Exchange** was spurned by shareholders (fewer than 0.5% accepted the offer). It was the second time in less than a year that NASDAQ's advances had been rebuffed and it joins a long line of suitors seen off by the LSE because, it says, they have not valued it properly. Speculation turned to the possibility of future partners for both bourses.

Deutsche Börse agreed to take a 5% strategic stake in the **Bombay Stock Exchange**, underlining the fashion for consolidation among global exchanges.

EMI's share price hit a low note after it issued its second profits warning of the year. The music company has been particularly hit by poor sales in North America, where, it said, the market for CDs had declined by 20% this year.

With the share prices of big aluminium companies rising amid rumours of takeovers, India's **Hindalco Industries** said it would pay nearly $6 billion for **Novelis**, a Canadian maker of rolled aluminium used to make beverage cans. The deal is the second-biggest foreign acquisition by an Indian company and comes two weeks after Tata Steel won the battle for Corus.

SXR Uranium One and **UrAsia Energy** agreed to merge, creating the world's second-biggest uranium miner. The price of the raw material for reactor fuel has more than tripled over the past three years, in line with the increased enthusiasm for nuclear power.

Gazprom said its third-quarter net profit rose by more than half, to $4.6 billion. The Russian gas monopoly is benefiting from rising exports and the higher prices it charges to former Soviet republics.

Time for another row

America's **trade deficit** in goods reached $836 in 2006. Congressional Democrats seized on the figure to lambast the Bush administration and called for “actions to stand up for America” by ending the “unfair trade practices” of the countries and regions that account for most of the deficit: China ($233 billion), the European Union ($117 billion) and Japan ($88 billion).

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Digital money

The end of the cash era

Feb 15th 2007
From The Economist print edition

Welcome the coming age of electronic money, but safeguard the anonymity of cash

IN THE spring Adam Smith will replace Sir Edward Elgar as the face on Britain's £20 note. The first economic thinker to be so honoured could well be the last. Not because economists are especially undeserving, but because cash, after millennia as one of mankind's most versatile and enduring technologies, looks set over the next 15 years or so finally to melt away into an electronic stream of ones and zeros. If an era is represented by its money, the information age is at hand.

Notes and coins are already a small fraction of the money in most rich countries. But going by the number of transactions rather than their value, we still live firmly in a cash society. The European Payments Council reckons that the European Union's 360 billion cash transactions cost at least €50 billion ($65 billion) a year. Others put the bill at €200 a head. Visa, a huge credit-card alliance, reckons cash accounts for most of the $1.3 trillion spent a year across the world on small-ticket items. Whether queuing to get money out and queuing again to spend it, or breaking a $100 bill with an irate cab driver one minute and having your pockets and purses fat with coins the next, cash is plainly still king.

Yet signs of the new order are everywhere (see article). This week mobile-phone operators announced services that will allow people to use their handsets to remit money to those in other countries, even if both parties do not have bank accounts. Numerous mobile-phone shopping-systems are entering commercial use, especially in Asia. Japan has roughly 500 smart-card operators that supply “digital wallets”. Edy, the biggest, oversees 15m transactions a month at 43,000 stores. In America MasterCard, Visa and others have introduced plastic cards that without a signature or pin number can settle bills under $25. Londoners will soon be offered a credit card that doubles as a tube pass and a “wave and pay” purse.

Nobody can be sure how fast bits and bytes will drive out metal and paper. A hundred years ago you could still pay your taxes in Uganda in cowrie shells. Perhaps hard cash will always find a niche, tucked away in children's birthday cards and as money for the unbanked and phoneless. But most of the time a phone or a smart card that can be waved over an electronic reader will beat notes and coins hands down for convenience. The doubt—and the remaining obstacle to digital money—concerns a third property of cash: its anonymity.

Gresham's law v Moore's law

Rendering cash as pure information is the final denial of the notion that money has intrinsic value: what was once a carefully weighed piece of gold, silver or bronze has become simply a token. That is a hard-won truth. As John Maynard Keynes once lamented, when “it appears that value is inherent in money as such” governments are able to con their citizens by debauching the currency.

Yet when money is minted from silicon something remarkable happens. The economics of handling cash—which today involves thick-necked men in crash-helmets—is suddenly subsumed by Moore's law, which has seen the cost of computer-processing power fall by half every 18 months or so. Electronic information is instantaneous, weightless and exact. No longer the miserable fumbling through coat pockets while a line of waiting customers quietly fumes. Shopkeepers can do away with expensive cash floats and elaborate ruses to stop cash fraud—such as charging $4.99 so that the $5 bill most people hand over has to pass through the till for one cent change rather than being trousered by a shop assistant.

Information-money can be handled by any information-processing device. That includes the mobile phone, which can add to money's utility thanks to its display and its power at any time to link to your bank as a mobile ATM. Visa thinks a contactless digital transaction takes less than half the time of a cash one and that people liberated from what happens to be in their wallets spend a fifth more.

Which is why digital cash is now solving its chicken-and-egg problem. In the past shopkeepers would not install systems unless shoppers had electronic cash. And shoppers would not use electronic cash unless they had something to buy. But smart cards and readers have become cheap and consumers now possess mobile phones in droves. The trillions of payments that are too small to bear the fees of paying by credit card have come within reach and almost everyone stands to gain. Some Japanese merchants have already begun to offer discounts to people using electronic cash. Others will follow.

The buck stops here

Except there is that nagging question of anonymity. Privacy has a lot going for it. The firms running payment systems might sell information about what you buy and when. Prepare yourself for a barrage of e-coupons and offers designed to fit your profile and uploaded to your phone. And there are more serious concerns. In the cash world, anonymity can be a cloak for wrongdoing. The suspicion clings that where you find anonymity you find drugs, fraud, money laundering, terrorist financing and a huge amount of humdrum tax evasion.

No wonder governments have long sought to control anonymous financial instruments. The state is almost certain to limit the amount that can pass through an anonymous card or phone. Eager to collect taxes from builders and nannies, it will also be tempted to monitor electronic-cash payments.

Whether it does so is a political question, not a technological one. You can design payment systems that protect against fraud and yet preserve anonymity, just as you can design open systems or those that keep your identity secret unless the authorities demand that it be revealed.

When it comes to trading convenience against privacy, most people seem to back convenience every time. With cash, however, it might be different. The more the state intrudes into electronic cash, the more it encourages inefficient notes and coin. From the first slave who bought his freedom, money has been what Dostoyevsky called “coined liberty”. As Adam Smith would no doubt have observed, just because the state can pry into electronic cash does not mean it should.

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Dealing with North Korea

Trust me?

Feb 15th 2007
From The Economist print edition

You would have to be mad to do so. This time make sure Kim Jong Il keeps his promises

Corbis/EPA

Get article background

WOULD you buy a used nuclear bomb from this man? The most devastating criticism of the nuclear "disarmament" deal struck with Kim Jong Il's North Korea this week by America, China, Japan, South Korea and Russia is that it rewards an appalling dictator's serial nuclear effrontery in ways that will only encourage Iran's nuclear-charged mullahs and other bomb-seekers in their ambitions. If that is indeed how things play out, the five countries that collectively proved unable or unwilling to stop Mr Kim's nuclear delinquency before his provocative nuclear test last October will have compounded failure with folly: encouraging nuclear wannabes to believe that the more rules they break, the bigger the eventual pay-off; and in the process eviscerating the Nuclear Non-Proliferation Treaty (NPT) and setting off a dangerous series of nuclear chain reactions, from East Asia to the Middle East.

It is hard to be optimistic that this time Mr Kim will be as good as his disarming word. North Korea joined the NPT without any intention of honouring its anti-nuclear rules. Similarly, it was already secretly dabbling with plutonium when it cynically agreed with South Korea that—horrors—nothing of the sort (including uranium-enriching, which can likewise be abused for bomb-making) should ever be tolerated on their shared peninsula. A subsequent deal with America in 1994 that won North Korea fuel supplies and promises of two Western-designed nuclear reactors froze the illicit plutonium work for a while. But the agreement disintegrated in 2002 because of suspicions that Mr Kim was now teaching himself uranium-enriching too. He flounced out of the NPT (which, unintentionally, was his one honourable act) and has gone on to amass enough fresh plutonium to increase his weapons stockpile from one or two bombs to maybe eight or ten.

Hence the explosive bravado of last October: with other bombs in stock, he felt he could afford to test one, and threaten to test more. And hence the other big criticism of this week's deal: that if it had been done earlier, the fallout from Mr Kim's nuclear nose-thumbing would have been better contained.

From rocket man to peace, man

In principle, it is hard to argue with that. The relentless regime-change rhetoric of some of George Bush's

officials will have encouraged Mr Kim to duck for nuclear cover. Yet North Korea's weapons tinkering goes back a good two decades or more. And the 1994 deal did its part to encourage Mr Kim in his extortionist habit of acting up and then pocketing placatory goodies, time and again. Until 2002 fuel supplies kept coming, no matter what. Despite such big benefits, Mr Kim's obligation to come clean about his nuclear past was never nailed down and was deferred for far too long. Even when he quit the NPT, China refused to countenance a censuring UN Security Council resolution. And South Korea kept shovelling food and cash northwards, regardless.

On paper, the latest deal does better. Mr Kim gets a little fuel in return for re-freezing his plutonium facilities. If he wants the rest of the 1m tonnes of fuel on offer, he can have it in stages, as fast as he meets his central obligation: to own up to all his past nuclear efforts and the material they have produced (whether plutonium or uranium), and then to take all the necessary steps to abandon the lot. Only when the disarming is done will far more generous aid be on offer.

There will certainly be devils in those details (see article). And Mr Kim keeps his bombs until the bitter end. That leaves him free to stomp out at any time, or threaten another test, to get more of his way. He may have no intention of disarming himself, only of provoking division among the other five across the table. If such disarray is to be avoided and the diplomacy is to be given its best shot at working whether Mr Kim intends it to or not, the negotiations now getting under way need to meet some stiff credibility tests.

One will be strict verification. By getting away with freezing just plutonium production last time, North Korea managed to prevent inspectors from the International Atomic Energy Agency, the UN's nuclear guardian, from snooping anywhere else. This time Mr Kim has a lot more detailed nuclear explaining to do. Meanwhile, in a secretive country that is the world's tunneller-in-chief, inspectors will need a lot of extra manpower, but most of all Mr Kim's ready co-operation to be sure of getting the full nuclear picture. All that should be a first requirement, not the last.

All for one, or all will be lost

Then there is the follow-through. Making sure Mr Kim gets nothing for nothing, and little for little, is the best way—if it can be done at all—of keeping him honest. Financial sanctions imposed by America for his other illicit activities, from missile peddling to currency counterfeiting, helped get his attention. Their ripple effects have put lots of other banks and companies around the world off doing business with North Korea. Even as other trade sanctions on North Korea are lifted, there should be no let-up on curtailing its criminal activities.

And in order to dispel the notion that nuclear provocation brings unjust reward, China and South Korea need to keep the pressure on too. Mr Kim may have been pleased with his nuclear test; China wasn't. It supported the UN resolution that imposed sanctions—a message loud enough for even Mr Kim to hear through his still echoing nuclear boom. China's shift from protector to accuser helped shock Mr Kim into talking again, and created the opportunity America has exploited. Even South Korea halted most aid.

The risk now is that the pressure will ease, and North Korea will feel freer to make mischief. Even America, distracted by the fighting in Iraq, may be inclined to let deadlines slip in search of a quieter life in the remaining two years of Mr Bush's hobbled presidency. That would be a terrible mistake. Having all the neighbours insist on a properly monitored disarming process is the only way to repair some of the damage Mr Kim has been allowed to do to the global anti-proliferation cause. East Asia will never be secure while North Korea has its nuclear bomb.

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Russia and the world

Talk, don't shout

Feb 15th 2007
From The Economist print edition

An outrageous Vladimir Putin isn't wrong about everything

AP

Get article background

BACK in 1960 Nikita Khrushchev hammered his fists, then his shoe, on the table at the United Nations so hard his watch stopped. This was no spontaneous tantrum. We are a superpower to be reckoned with, was the message, and we won't play by your rules. Assembled bigwigs treated to Vladimir Putin's recent tirade against America, NATO, the European Union and much else (see article) could be forgiven for thinking that in Russia time has not moved on much.

Yet the world is not on the verge of a new cold war. Modern Russia's future depends on its increasing integration into the global economy. Its security is imperilled by terrorism, the proliferation of weapons of mass destruction and climate change, just as America's or Europe's is. That said, Mr Putin's rhetorical table-thumping was just as calculated as the Khrushchev sort: after years of post-Soviet weakness, oil-rich Russia will behave as Mr Putin sees fit.

Mr Putin's speech contained a large dollop of self-serving anti-American cant. Less theatrically, he also pointed to problems in American arms-control policy. The danger is that people are likely to listen to the wrong part.

Begin with the populist blather. Efforts by the Organisation for Security and Co-operation in Europe and others to help foster NGOs, a lively press and proper election rules in the swathe of countries from Belarus to Central Asia are, Mr Putin would have us believe, the illegitimate machinations of hostile powers. The enlargement of NATO is condemned as a threat, even though Russia's western border has never been more at peace, NATO does its soldiering elsewhere, and even Mr Putin accepts (though his generals do not) that plans to site bits of America's anti-missile defences in Poland and the Czech Republic are no threat to Russia's nuclear deterrent.

What a cynical Mr Putin really wants is a Russian sphere of influence in Europe. At NATO and in the EU (and even over America's invasion of Iraq) Russia has no rights to a *nyet*. Only at the UN Security Council does Russia have a veto. Yet its refusal to press the Serbs to end their atrocities in Kosovo prompted NATO to go to war for the first time. Russia's more recent foot-dragging—in part to show America it could—over a sanctions resolution for Iran is no more helpful. Such zero-sum thinking, seeing any plus for America as a minus for Russia, hardly engenders the respect Mr Putin craves.

Where America needs to listen

But when it comes to arms control Mr Putin deserves to be heard, not least because the Moscow treaty that reduces both America's and Russia's deployed strategic warheads to between 1,700 and 2,200 apiece will expire in 2012. Both countries seem ready to cut further, even as they modernise their bombs. But Bush administration officials, insisting that Russia and America are not enemies, are resisting negotiating arms-control treaties. That is a mistake. Predictability and the ability to check that the two strongest nuclear powers are doing as promised would reassure not only Russia but China too.

The same principle applies in the heavens. Here America is pushing ahead fast; but it refuses to talk to Russia and others about military tricks responsible space-faring nations ought not to get up to. That makes it harder to rein in the misbehaved, like China, which last month blew up a satellite. Mr Putin's intemperate rhetoric is no help, but on one thing he is right: America and Russia have serious issues to talk about.

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America's presidential primaries

Eye to the telescope

Feb 15th 2007
From The Economist print edition

Moving the Californian primary looks like a mistake; but so is not changing the current system

AP

IS CALIFORNIA'S governor, Arnold Schwarzenegger, about to terminate America's venerable system of primary elections, that months-long political charivari that brings fleeting fame to the otherwise obscure citizens of Iowa and New Hampshire? He certainly seems to be trying. Last weekend the governor said he favoured moving California's presidential primaries up to February 5th. This week the bill passed in California's Senate, and will soon do so in the Assembly (see article). The new date is 22 days after Iowa opens the nominating season with its caucuses, and 14 days after New Hampshire stages the first primaries. If, as they are threatening, other big states such as Illinois, Michigan and Florida follow suit, the presidential nominations for both parties could be sewn up three weeks after the process begins, and almost ten months before the election is actually held in November 2008.

Undoubtedly this will change the nature of the American electoral process. The early primaries and caucuses have, by design, tended to be in the smaller states, where they have encouraged an informal style of campaigning based on stump speeches, town-hall meetings and pressing of the flesh. Already, a year before the first primary, candidates for the nominations have been staking out the territory. Hillary Clinton was in New Hampshire last weekend; Barack Obama was there a couple of days later. The audience for their efforts is national: viewers across America can tune in to see a smaller-scale, more human side to their leading politicians than will be on show later in the process.

As a result, the existing system offers a chance for the underdog to make his or her mark—as John Kerry did with an upset victory in Iowa in 2004, or as John McCain did in New Hampshire in 2000, going on to give George Bush an unexpected run for his money. Once the big states come into play, television is the only practical way to reach the voters, and the advantage goes to whoever has the biggest pot of money to spend on advertising. But a victory in Iowa or New Hampshire can help an underdog develop the momentum needed to raise enough cash to crack some of those big states. If the process is telescoped down to barely three weeks, there will be no chance for momentum to build up, and probably a good deal less of the “retail politics” that is a refreshing contrast to slick television advertising.

That does not mean the existing system is perfect: it gives undue weight to the opinions of voters in a few atypically rural, white and wealthy states. Iowa's 3m inhabitants have been dutiful presidential vetters, but why should they (and their odd views on ethanol subsidies) matter so much more than 36m Californians? The creation in 1988 of “Super Tuesday”, an arrangement whereby the southern states hold their primaries on the same day to maximise the region's impact, only enhanced this bias against the big states.

So reform would be welcome. But California's move looks self-defeating. As many as 17 states are likely to emulate the Golden State, which would largely neutralise what it is doing. It is reasonably clear where the process will end, as the states scramble over each other to be early: in something closely resembling a national primary on or around a single day as early as possible in the year of the election, and maybe even late in the year before it. Of course, many other countries have party primaries confined to a single day, and the 24-hour news cycle, not to mention the continual guerrilla war in the blogosphere, means that three weeks can be an exceptionally long time in politics. But America is so big, and its tradition of seeking presidential candidates from outside the ranks of party leadership so well entrenched, that a compressed primary system would be a pity.

Don't meddle, mend

Any solution needs to strike a balance between two laudable but incompatible aims: keeping the intimacy of small-state retail politics and letting the huge numbers of people who live in the big states have a say. The answer is probably a modified version of the “America Plan”: it proposes a series of ten randomly selected multi-state primaries, spaced over 20 weeks, in which some big states could vote early. But it takes too long. A system that started with, say, a sequence of five randomly chosen states first, followed by two or three “Super Tuesdays”, would be better. And the process should start later: at present, it paralyses the world's mightiest government for more than a year. If the first primary came in April, it would still leave plenty of time for the summer conventions.

The chances of such a system emerging soon are slim: it would require the co-operation of the states and the parties, and the states guard their independence jealously. But California's bold move should now prompt thought of reform.

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Class actions

Accepting the ambulance chasers

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Be nervous about American-style collective lawsuits coming to Europe, but don't stop them

David Simonds

LIKE most French politicians, Jacques Chirac is not exactly a cheerleader for American-style capitalism. Yet for the past two years France's president has been urging its parliament to pass legislation paving the way for class-action lawsuits. That would allow large groups of plaintiffs, abetted by eager lawyers, to sue firms for damages arising from shoddy merchandise, say, or unfulfilled contracts. French businesses have reacted with predictable horror, and the government has put a proposed law on hold. But Italy is debating similar legislation, and Britain, Germany and Spain, among others, already allow class actions in certain circumstances (see article). In fact, the protesting capitalists are right to be worried about the American experience of class actions, but wrong to imply that Europe would automatically suffer the same fate.

Class actions amalgamate many similar but small complaints into one big one. By allowing individuals with a common grievance to share costs, they make the law more affordable for the little guy. Such an improvement in justice is in itself a powerful argument for class-action suits. But businesses also have something to gain. At a stroke, companies can avoid wasting time and money on endless petty lawsuits and escape years of damaging legal uncertainty. It is more efficient for everyone, including the corporate defendant, to deal with one big case than many small ones.

So why have class actions proved so disastrous in the first country to introduce them? The problem is that the system in America is stacked in the plaintiffs' favour. Many plaintiffs in American class actions have suffered a genuine injury and deserve their compensation. But not all suits are so high-minded.

A class apart

American plaintiffs usually avoid having to pay anything to sue, since lawyers generally agree to work for free, in exchange for a share of any damages. Indeed, there is no risk for plaintiffs at all, since even if they lose, they do not have to pay the defendants' legal fees. Moreover, they stand a good chance of receiving not just compensation for any harm they have suffered, but also a windfall in the form of “punitive” damages. Since the juries that determine those damages sometimes award ruinous sums, firms often find the certainty of spending a little to buy off an ill-founded suit preferable to the risk of financial disaster by contesting it (and consumers end up with more expensive products as a result).

Even though American judges and politicians have tried to adjust this balance recently (see article), no sane European businessperson would want to import the American system as it stands. But that is not what is on offer, chiefly thanks to differences in the legal systems on the two sides of the Atlantic.

To begin with, judges in many European countries can oblige the losing party to pay the other side's costs. Disciplined by such a weighty potential liability, European plaintiffs are likely to pursue only the strongest cases. What is more, juries do not determine damages in Europe, and punitive awards tend to be much lower, if indeed they exist at all. Most European countries do not permit lawyers to keep a slice of the takings for themselves, making actions harder for ambulance chasers to pay for. In America class actions are often certified by elected lower-court judges (who pander to popular will); in Britain “group actions” need the go-ahead from an unelected High Court judge. Around 60 such cases have been launched since Britain allowed them in 2000—without any egregious examples of abuse; and the experience in the Netherlands, Scandinavia and Germany has been relatively benign as well.

The main problem in America's tort system is not class actions, but rather punitive damages and the rest of it. And there is also a more pragmatic reason for European firms to embrace class actions grudgingly: stopping cases moving to America. Injured European shareholders are beginning to sue European firms in American courts. That would be much harder for American courts to permit, if the shareholders could do the same in Europe. Until proven otherwise, class actions deserve a cautious welcome.

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Palestine's new government

A two-headed monster

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Israel should negotiate with Mahmoud Abbas, despite his flawed deal with Hamas

AFP

FOR several decades after 1967 Israel's main parties adopted incompatible positions on the greatest dilemma facing the Jewish state: what to do with the lands captured in the six-day war. Labour said the West Bank could be traded for peace; Likud that it was the Jews' biblical homeland, given in sacred trust by God and never to be surrendered. That did not stop the two parties from sometimes sharing power. A disgruntled member of one national-unity government in 1984 called it “a two-headed monster”. But when push comes to shove, beleaguered Israelis often sink their differences and stand together.

It helps to bear this in mind as the world decides in the coming weeks how to react to the power-sharing agreement the main Palestinian factions have just signed in Mecca (see article). Fatah and Hamas hold incompatible views about the biggest dilemma facing the Palestinians. Fatah reluctantly accepts the need to partition historic Palestine between a Jewish state and an Arab one; Yasser Arafat and Mahmoud Abbas, his successor as president of the Palestinian Authority, signed solemn agreements with Israel saying so. Hamas, in contrast, refuses to acknowledge Israel's right to exist and claims all of Palestine as a sacred trust for Islam. Even so, and despite last-minute quarrels, Hamas and Fatah appear now to be trying to stand together against their Israeli foe.

This is not the result America, Russia, the European Union and the United Nations—the international Quartet trying to coax the Palestinians and Israelis to peace—wanted. They are grateful to Saudi Arabia for brokering a deal that should prevent the recent fighting between Fatah and Hamas from billowing into a civil war. But the agreement does not meet the explicit conditions the Quartet set as its price for ending the embargo it imposed after Hamas won last year's legislative elections. The Quartet wants Hamas to recognise Israel, renounce violence and honour existing Palestinian agreements with Israel. The only concession Mr Abbas appears to have extracted from Hamas in Mecca is a vague promise to “respect” international resolutions and agreements signed by the Palestine Liberation Organisation. On the first two conditions, to judge by the details published so far, Hamas seems to have given little new ground in Mecca.

This means that Condoleezza Rice, America's secretary of state, is going to have a sticky time at next week's summit in Jerusalem with Mr Abbas and Ehud Olmert, Israel's prime minister. She has lately come to see the merit of fleshing out George Bush's skeletal “vision” of a two-state solution. The Jerusalem meeting was supposed to begin a process in which the tough final issues such as borders and refugees might be discussed, as well as the immediate security concerns that are always uppermost in Israel's mind. That will be much harder now. Mr Olmert will ask how he can be expected to do any

business at all with a Palestinian government whose dominant party denies Israel's right to exist, remains wedded to armed struggle and says it wants Israel's destruction.

It is a good question. But here is a better one. What is the alternative? Refusing to talk to the Palestinians' two-headed monster will not make Hamas go away. It has shown over the past year that it is too widely supported to be browbeaten into concessions either by sanctions or by pressure from Fatah. And Mecca suggests that Mr Abbas has little desire at present to take Hamas on either with guns or at the polling booth.

Make it look real, and maybe they will buy it

In the 1980s Israelis did not let their divisions over the occupied lands tear their nation apart. Why should they, so long as the Palestinians gave no hint of ever accepting Israel? It all began to change when by accepting the Jewish state's permanence Arafat made the dream of peace look real to Israelis.

The trick now is to make statehood look real enough to Palestinians for the majority to abandon Hamas's bleak vision of war to the end. Israelis say that they tried this at Camp David in 2000 and got nowhere. Well then, they—and the Americans—need to try again. When Palestinians come to believe that a generous two-state deal is really available, many may reconsider their support of Hamas. It is time to soften the economic pressure and negotiate a detailed promise of statehood that Mr Abbas can take to his people. It will be hard, but this is a better way to win the argument against Hamas than the past year's vain efforts to make the Palestinians jump through verbal hoops they have come to consider humiliating.

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On Bangladesh, Britain's prisons, South Africa, environmentalism in America, music stores

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Bangladesh's situation

SIR – You continue to assert that a military "coup" has taken place in Bangladesh ("Not uniformly bad", February 10th; "The coup that dare not speak its name", January 20th). This is unfortunate and factually misleading. The president proclaimed the country was in a state of emergency only after weeks of widespread political violence and strikes brought civic and economic life to a standstill. His proclamation was very much within the letter and spirit of Bangladesh's constitution, which allows such a declaration when "the security and economic life of the country is threatened by internal disturbances". More importantly, and as you have acknowledged, the general public overwhelmingly supports the president's decision.

The army remains strictly under the control of the civil administration and has been called in only to assist the "caretaker" government. That government now has the crucial task of undertaking institutional and structural reforms to ensure a free, fair and credible general election. These reforms would also help keep extremist fringe elements at bay. The government, therefore, needs some time and understanding to get on with this important work. Bangladesh remains a pluralistic, progressive country with immense potential and is committed to strengthening its institutions to make sure they are sustainable.

Ashraf Uddin
Deputy high commissioner for Bangladesh
London

Keep a tab on prisoners

SIR – The undeniable success of privately managed prisons in Britain shows that the government must fulfil its pledge to extend the role of business beyond the prison gates and into probation services ("Locking in the best price", January 27th). The failure of the British system is not to be found in the statistics on prison overcrowding that have been plaguing John Reid, the home secretary, in recent weeks, but rather in the appalling rates of recidivism. Running prisons can be a successful venture for private companies, but it would be even better if the skills of all sectors were effectively used to slash reoffending rates and cut the cost of crime to business—some £19 billion ($37 billion) a year in Britain alone.

Neil Bentley
Director of public services
Confederation of British Industry
London

A controversial vote

SIR – There was nothing "odd" about South Africa's decision to vote against the United Nations Security Council resolution calling for Myanmar to improve its human-rights record ("Let's not upset the generals", January 27th). South Africa condemns the abuse of human rights wherever they occur in the world, including Myanmar. But like many other countries, we were not convinced that the situation in Myanmar posed a threat to international peace and security. Our vote was a vote against the misuse of the council and not against the content of the resolution.

This was not about making an obscure point on the UN's constitution. Many countries are beset by serious human-rights challenges, but the recently strengthened Human Rights Council is the proper and most effective forum for protecting these and other freedoms. Far from betraying its past, South Africa cast a vote in favour of human rights: the world cannot afford to have the authority of the UN's human-rights machinery being undermined.

Lindiwe Mabuza
High commissioner for South Africa
London

SIR – South Africa's willingness to abandon its values on human rights by shielding repressive regimes from UN scrutiny goes beyond its recent vote. In the Security Council, South Africa argued that Myanmar presented a human-rights, not security, issue. But in the 2006 General Assembly's Third Committee, which deals with human rights, South Africa abstained on a resolution criticising Myanmar. It also voted against resolutions critical of Belarus and Iran, abstained on one critical of North Korea, and supported a procedural "no action" motion blocking a resolution that would have criticised Uzbekistan.

Likewise, in the 2006 Human Rights Council, South Africa consistently voted with its Non-Aligned Movement allies, most of whom are repressive, non-democratic regimes, to shield Sudan from criticism for its actions in Darfur. Whether the persecuted are near or far, South Africa finds itself with unclean hands.

Hillel Neuer
Executive director
United Nations Watch
Geneva

America the beautiful

SIR – Your briefing on green America remarked that the country is only "belatedly" embracing environmentalism ("Waking up and catching up", January 27th). This seems a harsh judgment for the nation that actually gave birth to the world's environmental movement. It is worth noting that landmark legislation in the United States, such as the Clean Air, Clean Water and Resource Conservation Acts of the 1970s, predated similar initiatives in Europe by a generation. The Clean Air Act Amendments, which pioneered emissions trading to achieve economically efficient ambient air quality, were passed in 1990.

Moreover, the substantial initial investment in basic research on the science of global warming was made by the administration of George Bush senior at a time when resources for such research were extremely limited elsewhere in the world. I believe that America will eventually adopt an effective policy on climate change, possibly based on the bipartisan proposal that my commission promulgated in 2004 and that continues to inform the deliberations of the Senate Energy Committee, which retains competence over this critical issue.

Vito Stagliano
Director of research
National Commission on Energy Policy
Washington, DC

SIR – Although you criticised the current Bush administration, you failed to recognise that the previous Clinton administration also showed no enthusiasm to sign up to Kyoto. In 1997, the Senate voted 95-0 against ratifying the protocol; not a single Democrat was willing to support it. Al Gore's stance on Kyoto then sits oddly with his enthusiasm for Kyoto now; his cynicism is matched by those European countries that pushed for the flawed protocol, but then failed to meet its targets.

Martin Gordon
Flynn, Australia

High fidelity

SIR – I disagree that the internet's impact on the profitability of music stores will reduce the availability of informed advice, through sales assistants, to the consumer ("Facing the music", January 20th). For instance, until the internet came about I never realised that the Rolling Stones had so many albums—all

they tend to sell in stores are their greatest hits and/or their most recent album. Putting music distribution online brings far more choice and confirms that sales assistants aren't nearly as useful for providing advice as the informed opinions of the millions of music lovers on the web.

Julian Dolega Mazowiecki
London

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The North Korean nuclear deal

Faces saved all round

Feb 15th 2007 | BEIJING, TOKYO AND WASHINGTON, DC
From The Economist print edition

AFP

An agreement is reached, but the Korean peninsula remains nuclear

Get article background

THE six men in dark suits proclaimed it a victory, happily shaking hands. Back in Washington, George Bush merely said he was “pleased”. He cannot be blamed for his guarded enthusiasm. The agreement, reached in Beijing on February 13th, declared that North Korea would close its nuclear plants within 60 days in return for aid and other inducements. If it holds, it may help to reduce tensions on the Korean peninsula in the wake of the North's nuclear test last October. But a nuclear-free North Korea remains an elusive goal.

It took 3½ years of negotiations, interrupted by prolonged bouts of North Korean bolshiness, to produce the accord. It paves the way for international nuclear inspectors to return to North Korea and sets out longer-term goals of dismantling the North's nuclear facilities, establishing normal relations between North Korea and America and securing a permanent peace on the Korean peninsula, where the war of 1950-53 is not yet officially over.

The six-day round of talks that produced the agreement almost foundered over North Korean demands for bigger pledges of aid. But there were signs before it began that America and North Korea were in a mood for compromise. Their negotiators held unusual one-on-one talks in Berlin in January after the collapse of the previous round in December. The discussions in Germany appeared to ease one of North Korea's worries: America's pressure since 2005 on a bank in Macau, Banco Delta Asia, which the Treasury Department said was involved in illicit North Korean financial dealings. This resulted in the freezing of North Korean funds worth $24m, not a paltry sum for a country desperately short of foreign currency. To avoid similar reprisals from America, other banks began shunning North Korea.

America's negotiator, Christopher Hill, said he told the other parties in Beijing (China, Japan, Russia and South Korea) that America would “resolve” the sanctions issue within 30 days. He did not say what this meant, but probably at least some of the North Korean funds will be deemed legitimate and unfrozen. According to the agreement, America will also begin taking steps to remove North Korea from its list of countries that sponsor terrorism and to lift trade sanctions that have been in place since the Korean war.

America is clearly trying to avoid a showdown with the North. The agreement makes no explicit mention of nuclear weapons, the actual dismantling of nuclear facilities or disposal of nuclear materials. Nor does it explicitly require North Korea to admit the existence of a programme to enrich uranium (presumably

for use in nuclear weapons) which the Americans have accused the North Koreans of operating in secret. It was American anger over the alleged uranium project—which American officials said the North Koreans admitted to but later denied—that led to the breakdown in 2002 of a nuclear accord reached eight years earlier.

Gary Samore, a former senior American official who helped negotiate the 1994 agreement, says the Bush administration—once cynical about that accord—has now made a “fundamental about-face”. He thinks the present deal could have been reached long before North Korea conducted its nuclear test. But he says it is still useful, making it less likely that North Korea will resume nuclear testing and freeing America to focus on the Middle East.

The agreement requires North Korea to “shut down and seal for the purpose of eventual abandonment” its nuclear facilities at Yongbyon, 87km (54 miles) north of Pyongyang. It must do so within 60 days (in 1994 the North Koreans were given only a month). The Yongbyon facilities include a 5MW graphite-moderated reactor and a plant used to reprocess spent nuclear fuel from this reactor, including the extraction from it of weapons-grade plutonium.

In return, North Korea will be sent aid “equivalent to” about 50,000 tonnes of fuel oil, also within 60 days. This is the same amount that was sent to North Korea in 1994 as an initial reward for signing that year's agreement. It envisages a further package of economic, energy and humanitarian assistance to the value of some 950,000 tonnes of heavy fuel oil (about $250m at current prices). This is to be disbursed as North Korea carries out eventual commitments to declare all its nuclear programmes and disable its nuclear facilities.

Synchronised sacrifice

This time the Americans clearly wanted to avoid one of the biggest pitfalls of the 1994 accord, namely its requirement that North Korea should receive massive energy aid over a period of several years before having to dismantle its nuclear facilities and dispose of all of its weapons-grade plutonium. That deal called on America to organise the construction in North Korea of two light-water nuclear reactors (less proliferation-prone than the Yongbyon complex), and arrange the shipping of around 500,000 tonnes of fuel oil a year to North Korea until the completion of the project.

Only after that (2003 was the target date, but this slipped to 2009 before the project was abandoned) was North Korea obliged to dismantle the Yongbyon nuclear facilities and dispose of its fuel in a way that did not require reprocessing it inside North Korea. The regime had to provide the UN's International Atomic Energy Agency (IAEA) with a full account of its nuclear stockpiles only after a “significant portion” of the light-water reactor project had been completed. That moment never came, despite total spending of more than $2 billion on fuel oil and the aborted light-water reactors.

American officials say that, under the new agreement, aid will be provided in tandem with North Korean progress towards declaring and disabling its nuclear programmes. “The sooner they get these actions done the sooner they get the fuel oil,” said Mr Hill. But the new agreement has obvious flaws, too. It does not talk about dismantling. It uses only the more ambiguous terms “abandonment” and “disablement”—leaving open the possibility that North Korea may try to insist on keeping its nuclear infrastructure largely intact. Ominously, North Korea's state-run news agency said the offer of aid equivalent to 1m tonnes of fuel oil was made in connection with North Korea's “temporary suspension of the operation of its nuclear facilities”. That is hardly how the other parties interpret the document.

The return of IAEA inspectors could pose another problem. The inspectors, who had been monitoring the Yongbyon facilities since the 1994 agreement, were expelled from North Korea in December 2002. The new deal says North Korea has to invite them back within the first 60-day period to carry out verification work “as agreed between” the IAEA and North Korea. But it is far from clear how freely North Korea will let the inspectors operate.

The IAEA will want to verify how much of Yongbyon's spent fuel has been reprocessed since 2003 (all 8,000 of the reactor's spent fuel rods, the North Koreans have said, enough for half a dozen bombs). It will also want to know how much was reprocessed before the 1994 agreement (enough for a couple more bombs, the Americans think). Then there is the suspected uranium-enrichment project: tricky to inspect, since the Americans are not even sure where it might be.

This agreement, unlike the one made in 1994, makes no mention of North Korea's commitment to the

Nuclear Non-Proliferation Treaty (NPT), from which it withdrew in 2003. In a statement agreed on by the six parties in September 2005, North Korea pledged to return to the NPT “at an early date”. But then, furious at America's action against the Macau bank, it refused to take part in further talks until last December. By that time it had not only conducted a nuclear explosion but also, in July 2006, long- and medium-range missile tests. These raised fears of possible attempts by North Korea to make nuclear missiles that could reach Japan and America.

In Washington, some portray the latest deal as a judicious compromise. Others call it a reckless abandonment of principle. John Bolton, Mr Bush's ex-ambassador to the UN, told CNN that the deal was “very bad...It sends exactly the wrong signal to would-be proliferators around the world: if you hold out long enough and wear down the State Department negotiators, eventually you get rewarded.”

Mr Bush retorted that Mr Bolton was “flat wrong”. But to many, the ex-ambassador's words rang true. The fate of the 1994 deal clearly demonstrated North Korea's unreliability. That agreement did succeed in preventing further plutonium production at Yongbyon for eight years (as well as the completion of two much bigger graphite moderated reactors: one 50MW facility in Yongbyon and a 200MW one in Taechon 20km away). But by 2000 the Americans suspected the North Koreans of pursuing their alleged secret uranium enrichment project with the help of Pakistan's top nuclear scientist, Abdul Qadeer Khan.

Pressure from big neighbours

American officials say the new agreement is different. Unlike the 1994 pact, this one involves not just America and North Korea but four other regional powers, including China—North Korea's biggest supplier of food and fuel. This, in theory, puts more pressure on North Korea to keep its end of the bargain. Tony Snow, Mr Bush's spokesman, says the other parties to the deal “have made it pretty clear” that if the North Koreans cheat, “they're going to take action against them.”

North Korea's leader, Kim Jong Il, probably believes that a bomb is the best guarantee of his regime's survival, so he may cheat anyway. Mr Bolton recently argued, in an interview with the *American Interest*, that the way to get rid of North Korea's nuclear weapons was “regime change”. But there is little appetite, either in Washington or Beijing, for such a radical approach. In Congress, Mr Bush is unlikely to face big opposition to the accord. Much of the aid will be supplied not by American taxpayers but by China, South Korea and Russia—and Russia announced, on February 14th, that it would also write off most of North Korea's $8 billion debt to Moscow.

In Japan there could be stronger objections. Because North Korea has not yet come clean about all the Japanese nationals it kidnapped in the 1970s and 1980s (to help train North Korean spies), Japan is refusing to contribute to the aid package. The prime minister, Shinzo Abe, owes what little popularity he has left to his tough stance on the abduction issue. At the same time, prolonged refusal to provide aid could isolate Japan from other participants in the North Korea talks.

Japan's concerns are not being neglected. The six nations have agreed to set up five working groups to discuss specific issues arising from the agreement. One of these will deal with bilateral relations between Japan and North Korea. Another will look at the normalisation of ties between North Korea and America. But neither is likely to make swift headway. According to Kyodo, a Japanese news agency, Japan's chief cabinet secretary, Yasuhisa Shiozaki, said a day after the agreement was reached that he believed America would not remove North Korea from its terrorism list as long as the issue of the abductees remained unresolved.

For North Korea, securing normal ties with America is a key objective. In a recent article, Robert Carlin, a former State Department analyst who took part in negotiations with North Korea in the 1990s, and John Lewis, a Stanford University professor, argued that North Korea wanted a “long-term, strategic relationship” with America. They said the North Koreans wanted to use this to “buffer the heavy influence their neighbours already have, or could soon gain, over their small, weak country.” More prosaically, perhaps, better relations with America could be a way of ending the country's isolation and boosting its tattered economy with increased trade and foreign investment.

America is not being nearly as explicit now as it was in the 1994 agreement about the way ahead for normalised ties with North Korea. Under that pact, America was supposed to reduce barriers to trade and investment within three months. Each side pledged to open a liaison office in the other's capital. Eventually the two sides would upgrade their relations to ambassadorial level. Even under the Clinton administration little of this actually happened. Several Western countries set up embassies or at least

appointed non-resident ambassadors, but America and North Korea never got as far as liaison offices (although Madeleine Albright, then secretary of state, paid an unprecedented visit to Pyongyang in 2000). Mr Bush, who has described North Korea as part of an “axis of evil” and Mr Kim as a “pygmy”, will certainly move no faster.

The new working groups, which are due to meet within 30 days, could rapidly get bogged down in bickering. One of them will specifically address North Korea's nuclear projects. Mr Hill, the American negotiator, said he told the North Koreans repeatedly that America needed to know “precisely” what was happening with uranium enrichment. He said a team would be set up within the working group to look at this issue particularly.

It is not clear, however, how far the Americans will press the point if the North Koreans continue to deny enriching uranium. Some analysts believe that America is less convinced than it once was about how far the project might have progressed. An unclassified CIA estimate distributed to Congress in 2002 said the North was building a plant that could produce enough weapons-grade uranium for two or more nuclear weapons a year when fully operational. It said this could be as soon as the middle of this decade. American officials are no longer sounding quite as alarmed or as certain of their facts.

The Chinese surprise

China is doubtless delighted that its efforts to broker peace on the Korean peninsula appear at last to be making some headway. One of its aims has been to forge a closer relationship with America and thereby secure greater American co-operation in persuading Taiwan not to move further towards a more explicit declaration of its independence from China. The Americans have been obliging. After the agreement on North Korea was announced, Mr Hill was effusive in his praise for the Chinese. He said it would have been “a little surprising” a few years ago to see America and China “working together the way we are”. Talk, in the early days of Mr Bush's presidency, of China as a “strategic competitor” has long since been erased from America's official vocabulary—despite the Pentagon's continuing concerns about China's growing military power.

North Korea has made concessions too. Mr Hill said that it was no longer demanding an immediate revival of the light-water reactor project. The six parties agreed in September 2005 that this project could be discussed “at an appropriate time”, but North Korea then wanted it made a priority. Without the revival of the reactor project, “our position is not to even dream of us giving up our nuclear deterrence,” said a North Korean official at the time. This week's accord, however, makes no mention of it. Neither does it mention any lifting of the UN sanctions imposed in response to the missile and nuclear tests—sanctions which North Korea said were tantamount to a declaration of war.

Reuters

Coming in from the cold?

It is likely that the agreement will further sap the will of some countries to punish North Korea for the tests. Thanks to foot-dragging by China and Russia, the UN sanctions were never very tough to begin with (although China's willingness to subscribe at all was a remarkable departure from its previous reluctance to censure its neighbour). Japan went further, banning all imports from North Korea. But a senior Japanese diplomat, speaking on condition of anonymity, says that trade between China and North Korea appears to have picked up even as Japan's has waned.

The mood is more upbeat in South Korea. Two days after the agreement, delegates from North and South met in the North Korean city of Kaesong to discuss the possible resumption of ministerial-level talks and humanitarian aid, which the South Koreans suspended last July in response to the missile tests.

North Korea may feel it has little to lose by appearing to look more reasonable. Despite its nuclear test, it has secured continued engagement with America and other powers. It knows that America has very few cards to play. No one has any illusions that North Korea is about to follow the example of Libya or South Africa and abandon overnight its nuclear-weapons projects. Even the Chinese, who in public at least have usually been doggedly optimistic, have begun to air doubts more openly since last October's nuclear test. Zhang Liangui, of the Communist Party's top training school for officials, wrote in last autumn's edition of

China Security, a Washington-based journal, that North Korea would never surrender its nuclear weapons—not, he said, “for anything”.

The most realistic, limited aim for America would be to persuade North Korea not to make any more nuclear weapons material and to ensure that what has been produced is not given to America's enemies. After the nuclear test, Mr Bush said that such a transfer would be considered a “grave threat” to America, but did not say the test itself was a threat. “Early denuclearisation” was restated as a headline goal in this week's accord. But North Korea also pledged in 1994 to take “consistent steps” towards making the Korean peninsula a nuclear-free zone. There is no sign of that yet.

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The primaries

California demands its say

Feb 15th 2007 | LOS ANGELES
From The Economist print edition

America's biggest state moves to up-end the presidential primary system

Reuters

YOU know the race for the presidency is truly under way when Rudolph Giuliani, a former mayor of New York and an urbanite to the bone, spends half a day hanging out at a California farm show. During the next 12 months—longer, if he wins the Republican nomination—Mr Giuliani will become accustomed to the sight of tractors and feed wagons. If California's politicians get their wish, he will also spend a lot more time in their state.

California punches well below its weight in presidential election campaigns. Candidates tend to fly in for fund-raising dinners and then fly back to Iowa and New Hampshire, where the real campaigning takes place. Those states are usually the first to select Democratic and Republican nominees; California is near the end of the race. Nor does the state see much action during the final run-off in November. California is so reliably Democratic that its votes are taken for granted. Because it is three hours behind the east coast, national TV stations have even announced likely winners before its polls have closed.

That rankles in a state that likes to think of itself as a beacon to the rest of America. Why, Californians ask, should Iowa (which is 95% white) and New Hampshire (96% white) hold so much sway over an increasingly diverse country? So, this week the state Senate approved a bill moving California's primary to February 5th. It should pass in the Assembly next week and the governor, Arnold Schwarzenegger, has said he will sign it.

Although three other states are certain to vote earlier (four, on the Democratic side) Californians outnumber them more than three to one. The hope is that, once the bill is signed into law, the state will be transformed from a mere cash machine to a political gorilla. For several reasons, that is unlikely; but the state's move will nonetheless transform the presidential race.

California is not the only state that wants to hold an election in early February. As many as 17 may now pile in on the same day, including big ones such as Florida, Illinois, Michigan and New Jersey. Assuming that none of those states pushes its primary even further forward, into January—something that has been mooted in Florida—February 5th will become in effect a national referendum.

The national Democratic and Republican parties are not pleased. They have tried to bribe states by promising them more delegates (and thus a bigger say in the nomination process) if they hold their elections later, and have threatened to deprive them of delegates if they insist on moving. Such threats ring hollow. It is not the number of delegates that matters so much as the media attention generated by early races. And the national parties will not want to annoy voters by telling them that their ballots do

not count for much.

The most obvious effect of holding so many elections on one day is to raise the cost of competing. California alone, where races must be fought mostly with TV ads, is dauntingly expensive. Wayne Johnson, a Republican consultant, says candidates running for statewide offices last year reckoned on spending about $3m a week on media advertising alone. The “entrance fee” for a Republican who wants to run a campaign in the state next year is thought to be at least $10m. Democrats, who need to woo voters in the exceptionally pricey Los Angeles and San Francisco media markets, will have to spend even more.

The cost, combined with the sheer number of races to be decided on the same day, is likely to winnow the field. Nine Democrats and ten Republicans have announced that they will run in 2008, or have set up exploratory committees. Few will be able even to contest the election on February 5th. Commentators were disappointed when, in 2000, both parties in effect settled on their candidates during the second week of March. Next year's race may be over more than a month earlier.

Some candidates can take comfort at the thought of the Californian gorilla. Mr Giuliani's laissez-faire record on abortion and his relaxed attitude to homosexuality are likely to offend many Iowans and South Carolinians. But he can count on California's Republican voters being less fussed about such imperfections, so long as he preaches the gospel of low taxes. And if he is still running strongly by that point, Mr Giuliani may also be able to call on the support of Mr Schwarzenegger, a fellow centrist and man of action (see article). An early California primary may also suit both the current Democratic front-runners. Hillary Clinton benefits from the assiduous networking of her husband, who visited the state, on average, once every seven weeks during his first term as president. Barack Obama is sparking fascination in Hollywood, which knows how to spot a star with a convincing back-story. Moguls from the film and music industries will host a fund-raising dinner for him next week.

None of the candidates, though, is likely to make the mistake of thinking they can wholly fall back on California's voters. New Hampshire, Iowa, Nevada and South Carolina will still generate most of the political headlines for several weeks at a crucial early stage of the campaign. Survival in those states still matters, not just the ability to pay for TV advertisements in Los Angeles. In 2004 Howard Dean entered the primaries with a bigger war-chest than any other Democratic candidate. A poor showing in Iowa, combined with an infamous scream, sank his campaign almost immediately.

“The states that go first will get the same kind of pandering that they always do,” predicts Larry Sabato, who follows primary elections at the University of Virginia. And California's decision to bring its primary forward might even increase their influence. The probable crush of elections on February 5th means candidates will be stretched thin and will find it almost impossible to spend much time in any state. So, paradoxically, it may now become even more important to establish a reputation as a winner beforehand. Iowa and New Hampshire are not doomed to obscurity quite yet.

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California's Republicans

Arnie alone

Feb 15th 2007 | LOS ANGELES
From The Economist print edition

Why California's governor has fallen out with his party

THE cheering began several minutes before Arnold Schwarzenegger, California's governor, took the stage at the state Republican convention on February 9th. Unfortunately, those cheers were not for the governor but for Matt Romney, whose chief political accomplishment so far is being the son of Mitt, a conservative candidate for the presidency who opposes abortion. Mr Schwarzenegger entered the room to modest applause and gave a short speech, large parts of which were heard in silence.

Outside Sacramento, Mr Schwarzenegger is one of the Republican Party's biggest stars. He thumped his Democratic opponent in November's gubernatorial election, giving the national party a rare scrap of good news on a generally bad night. Yet among politicians and activists from his own party he is regarded with suspicion at best. One state senator and prominent critic, Tom McClintock, boycotted the convention. Some of those who turned up wore badges opposing “RINOs” (Republicans In Name Only).

The party faithful distrust Mr Schwarzenegger for the same reason that most Californians like him. Last year he began to work closely with the Democrats who dominate the state legislature. Together they raised the minimum wage and enacted a bold bill to cut carbon emissions.

What strikes voters as no-nonsense government looks like treachery to many Republicans. And the provocations continue. After his re-election Mr Schwarzenegger announced the beginning of a new “post-partisan” era. His health-care plan would levy fees on doctors, hospitals and businesses—anathema to a state party that defines itself above all by its opposition to taxes. On February 4th the *Los Angeles Times* released a tape-recording of Mr Schwarzenegger's unscripted thoughts on Californian politics. At one point, he wonders when Republicans will get it into their heads that they are not the majority party.

Such needling aside, there are two big reasons why the party is not getting along with its star performer. The first has to do with the way politicians are elected. In 2001 California's districts were redrawn so that nearly all became safely Republican or safely Democratic. When Allan Hoffenblum first published a guide to state elections in 1994, he identified 49 legislative and congressional races as competitive. Last year he found just eight.

For virtually all campaigns the only race that matters is the primary, when party members select their candidates. The deep-dyed folk who vote in Republican primaries tend to reward tough talk on immigration, tax and abortion, just as Democratic voters demand that their representatives hug trees. Mr Schwarzenegger, who is elected by the state as a whole, is naturally drawn to the political centre.

The other reason Republican politicians fail to get along with the governor is that they do not have to. Although they are a minority in both houses of government, they can block the budget, which needs a two-thirds majority to pass. If they find any legislation truly offensive, they can back a ballot initiative to overturn it: such a measure is more potent in California than in any other state. Assembly members have already hinted at a challenge to any health-care bill that raises taxes.

When they were not complaining about their wayward governor, the convention-going Republicans were praising a former occupant of the office: Ronald Reagan. That is odd, because Reagan worked well with Democrats, raised taxes while he was in office and signed a liberal abortion law. His closest heir in Sacramento is an Austrian-accented governor whose speeches are poorly received.

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Police line-ups

Killers and fillers

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A controversy over how to handle eyewitnesses

THE difference between fuzzy perceptions and hard science can mean everything to someone who has been falsely accused of a crime. According to the Innocence Project, a non-profit legal clinic attached to Yeshiva University in New York, DNA evidence has so far helped to exonerate 194 people in the United States who were wrongly convicted, and who spent an average of 12 years in prison before being released. Of the wrongly accused, over 75% had been mistakenly identified by eyewitnesses.

Since using witnesses to weed out suspects remains a crucial tool for investigating crimes, groups across the country—from crime commissions to state legislators—have been looking for better ways to run police line-ups. That effort is spotlighting an academic debate about psychology and research methods. And it has now triggered a lawsuit over a pilot study of three police departments in Illinois.

In traditional police line-ups (as featured in many a celluloid crime drama) investigators show eyewitnesses a group of subjects or a palette of photos and ask whether the criminal they saw is among them. Many psychologists and criminal defence lawyers have called for a switch to another method that is different in two important ways. First, they say, the officers handling the line-up should not know which members of the group are “fillers”: ie, innocents who have been added merely to make the eyewitness choose. That way, the witness does not pick up any cues, intentional or otherwise, about which subject the police suspect.

Second, say psychologists, eyewitnesses would respond more accurately if they could see subjects one at a time, rather than seeing a whole group at once and making relative comparisons. A number of research studies in academic settings have suggested that this method, called “sequential double blind”, would lead to fewer witness errors than traditional line-ups. New Jersey's attorney-general recommended the new method to the state's police department in 2001. Since then, attorneys-general or crime commissions in Wisconsin, North Carolina and Virginia have endorsed the reforms in different ways; and legislatures in five other states are considering them.

This reform drive was called into question last year, however, by a pilot study in Illinois. Unlike earlier research, which often used video clips or other methods to simulate crimes and witnesses, the Illinois study was the first and only one to compare the two methods in the field using actual cases. During 700 or so real police investigations in Chicago, Evanston and Joliet, eyewitnesses using sequential line-ups were less likely to name the police's suspect, or anyone at all, as the criminal.

That is an ambiguous result, since the police, of course, could have been wrong about some of their suspects. But eyewitnesses using sequential line-ups named fillers as criminals—that is, they wrongly accused people who were definitely innocent—three times more often than witnesses who looked at traditional line-ups.

Many reforms remain convinced that the newer method is better, but concede that the Illinois study has slowed their political momentum. So earlier this month two reforming groups—the National Association of Criminal Defence Lawyers (NACDL), and the MacArthur Justice Centre at Northwestern University—filed a legal demand for more details about the pilot study. Scott Ehlers, who deals with state legislatures for the NACDL, says that some of its results are “fishy”. The Chicago police, however, say that they are innocent. No eyewitnesses have come forward.

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Euthanasia in Oregon

By any other name

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Just don't mention suicide

IT HAS never been easy to find the right phrase to describe what happens under Oregon's Death With Dignity Act, which allows terminally ill patients to request a lethal prescription from their doctor. Since voters approved the law in 1994, the procedure has generally been known as “physician-assisted suicide”—descriptive, if clunky.

Now, however, advocates are objecting to the word “suicide”. Suicide, they point out, implies a decision to cut short a life that would otherwise continue, whereas terminal patients are simply hastening a death that is already near. They also claim that the term distorts political debate. A Gallup poll in May showed that 69% of Americans support assisted death, but the number drops if the label “suicide” is actually applied. More important, Oregon's law specifically states that the procedure does not constitute “suicide, assisted suicide, mercy-killing or homicide”, at least for legal purposes.

Faced with the possibility of a lawsuit, bureaucrats at the state public health division have cast about for a semantic escape hatch, eventually settling on the phrase “physician-assisted death”. But this, unfortunately, stirred the ire of the law's opponents. “It's a complete euphemism,” fumed Charles Bentz, president of Physicians for Compassionate Care.

Desperate to avoid taking sides, state officials are now resorting to inventive circumlocutions such as “participation in the Death With Dignity Act”. This pleases no one, but seems to have staved off legal action. Meanwhile advocates of the act are pushing interested groups, such as journalists, to step back from “suicide” and adopt cheerier formulations such as “choice and control at the end of life”. It would have George Orwell rotating longitudinally in his subterranean post-life enclosure.

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Mitt Romney

Casting the first stone

Feb 15th 2007 | WASHINGTON, DC
From The Economist print edition

A heavyweight with baggage enters the presidential chase

ODDLY for such a champion of family values, Mitt Romney once threw stones at his wife. To be fair, they were not yet married at the time. In fact, they had not yet finished elementary school. Master Romney was out with his fellow cub scouts when they saw a girl riding on a horse. “What do cub scouts do when they see a little girl on a horse?”, he asks. “We picked up stones and threw them.”

Over time, the boy's courtship strategy grew more sophisticated. He took her to see “The Sound of Music” and popped the question at their high school prom. They had five sons, and Mr Romney is now running for president with the slogan: “America cannot continue to lead the family of nations around the world if we suffer the collapse of the family here at home.”

Mr Romney has two selling points, both of which he stressed at the launch of his campaign in Michigan on February 13th. One is that he is a model husband, father and social conservative: he opposes abortion, gay marriage and stem-cell research. The other is that he has more executive experience than any other serious candidate of either party, even Rudy Giuliani. He co-founded a venture-capital firm and made a whopping fortune. He rescued the 2002 Salt Lake City Winter Olympics from disarray. He was also a successful Republican governor of usually liberal Massachusetts. His big achievement was a scheme to make his state the first in America to enjoy universal health coverage, through a mixture of markets, subsidies and compulsory insurance.

No one could accuse Mr Romney of being a lightweight—a charge that is levelled against John Edwards and Barack Obama. Then again, no one can accuse him of being a gifted public speaker like those two, either. Used to addressing small groups of clever people in suits, he seems slightly awkward on the stump. He glances too often at his notes. He fails to rouse a crowd. He is all substance and not much style.

Opinion polls show him far behind Mr Giuliani and Senator John McCain in the race for the Republican nomination. Were he somehow to win it, polls show him losing to Hillary Clinton by more than ten points. But it is early days. Front-runners can stumble. In Mr Romney's favour, Americans probably feel it is time to have someone competent in the White House.

On the issues, Mr Romney presents himself as the most conservative of the Republican big dogs. His credentials as a fiscal conservative are solid: he inherited a $3 billion deficit in Massachusetts and turned it into a $700m surplus without raising income tax. But on social issues, he is accused of opportunism. When running (unsuccessfully) for the Senate in 1994, he was pro-choice on abortion and said he was more pro-gay rights than his opponent, Ted Kennedy. On abortion he has changed his mind. On gay rights he still advocates tolerance, but he is stridently opposed to gay marriage. Events nudged him somewhat: while he was governor, the Massachusetts Supreme Court discovered a right to gay marriage in the state's 18th-century constitution. On stem cells, he says he changed his mind in 2004, after a scientist told him there was no moral issue involved because the embryos used in the research would be destroyed anyway.

Mr Romney's other big problem is that he is a Mormon. Granted, before John F. Kennedy, many doubted that a Catholic could be elected president. But Mormonism is further from the American mainstream. Mormons are no longer polygamous, but they do believe that people can attain “godhood” and that the dead can be baptised. Mr Romney will see a lot of stones whizzing his way in the coming months, and the people throwing them will not be little boys.

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Country music

Chicks laugh last

Feb 15th 2007 | WASHINGTON, DC
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George Bush's favourite art form is a little less loyal nowadays

FOUR years ago the war in Iraq was about to begin. George Bush was a popular president, and the Dixie Chicks were a popular country band. But they were on a collision course. In March 2003 the chief Chick, Natalie Maines, dissed Mr Bush, telling a London audience she was “ashamed” that he was from Texas. The fallout was swift and severe. Fans smothered the band with angry letters and many radio stations boycotted its music. The band even received a few death threats.

The Chicks were not cowed. They made a documentary, “Shut Up & Sing”, about the controversy and addressed it on the first single taken off their next album, “Not Ready To Make Nice”. “I made my bed and I sleep like a baby/With no regrets,” sang Ms Maines. On February 11th it was named record and song of the year at the Grammys. The Dixie Chicks won five awards altogether, including best country album. It was easy to see the awards as a vindication for the band, and the women took that view. “Ha-ha!” said Ms Maines, quoting Nelson Muntz from “The Simpsons”.

AP

Still mad as hell

It was also tempting to view the Chicks' big night as a sign of how Mr Bush's political capital has shrunk. He used to have a lock on the country crowd. Now his old nemeses are being feted all over town and, to make things worse, some of his most vocal supporters may be wavering.

“Some say this country's just out looking for a fight,” sang Darryl Worley in 2003. “After 9/11, man, I'd have to say that's right.” Flash forward to today, and Mr Worley has seen the downside. “I just came back from a place where they hated me and everything I stand for/A land where our brothers are dying for others who don't even care any more,” he sings in the oddly jaunty “I Just Came Back From a War”. “You don't know me any more,” he concludes. The song is doing well in the country charts.

Other musicians have clammed up about politics altogether. Take Toby Keith. A few years ago, he was a self-avowed menace to terrorists. “We'll put a boot in your ass,” he promised in song. These days, he is more interested in domestic matters. His new single, released this week, commemorates a “High Maintenance Woman”. She is uninterested in Mr Keith because he is “just the fix-it-up boy at the apartment complex”. Making love beats making war, it seems.

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Florida's stolen artefacts

Digging deep

Feb 15th 2007 | TAMPA
From The Economist print edition

An open invitation to make a little money

THE archaeological site in Thonotosassa, which means “land of flint” in the Seminole-Creek language, is nothing much to look at: a few pits dug in the sandy soil among gnarled live oak trees, with cattle grazing round. No one guards it. Yet this place, about 17 miles (27km) north-east of Tampa, is a good spot to find Indian artefacts, on high ground close to fresh water. Robert Austin, an archaeologist who has dug there often, says that some of the remains discovered date back 12,000 years.

The chance of finding ancient objects draws thieves, too, to dig for arrowheads, flints and pots. A good arrowhead can fetch thousands of dollars. Trespassers usually scout the scene of the would-be crime during daylight hours, then return with shovels at night. No one stops them.

Last month five men were arrested at Thonotosassa on suspicion of intending to loot it. They said they were collectors, and had no intention of selling the arrowheads they were looking for. They have now been charged with trespassing.

The problem is not confined to one area of the country, or even to the open air; 26 bowls and bottles of the Caddo Nation, about 600 years old, were stolen from Southern Arkansas University in August 2006. But lack of security at Indian archaeological sites makes them particularly vulnerable.

Bureaucratic tangles don't help. The Bureau of Indian Affairs gets involved only if the theft is from federal land. Sometimes local police will investigate stealing and trespassing; sometimes it is left to tribal law enforcement. Depending on who owns the land, the Bureau of Land Management, the Forest Service, the National Park Service or state wildlife commissions may all have jurisdiction. The result is often that no one takes action at all.

“We treat it as a serious crime. It's a unique kind of crime that does irreparable damage,” says Wayne Dance, the assistant US attorney in Salt Lake City, who has obtained 41 convictions in archaeological-theft cases in the past 14 years. Thefts from ancient Indian ruins, he adds, are a growing business in the Four Corners area, where Utah, Colorado, Arizona and New Mexico meet in spectacular mountains.

“The only way to solve this problem”, says Mr Austin, “is to educate the public about why it's wrong to salvage these sites. The problem is, these sites are getting destroyed faster than we can educate.”

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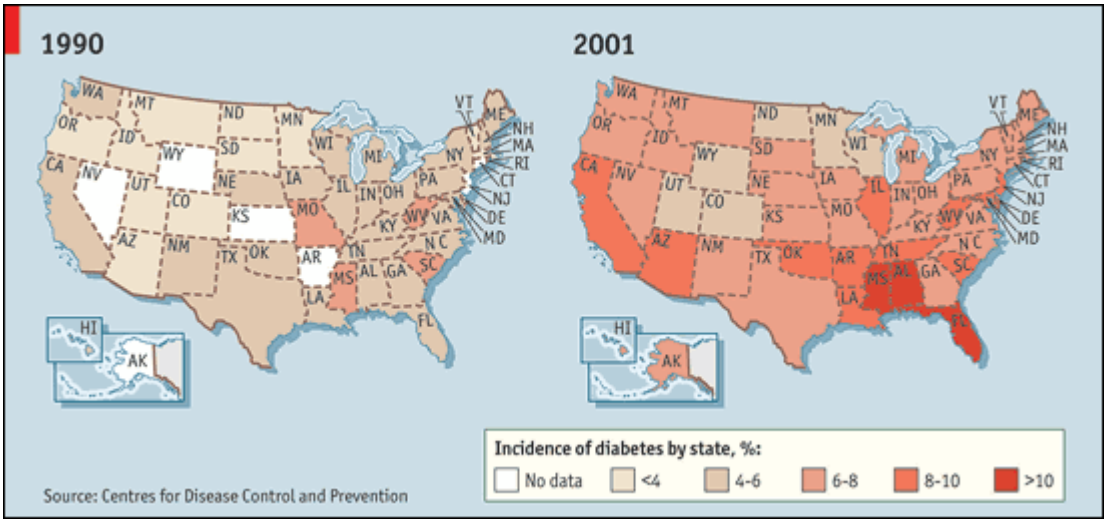
Diabetes

An American epidemic

Feb 15th 2007 | BOSTON AND DENVER
From The Economist print edition

Fighting diabetes is as much a social problem as a scientific one



ON February 10th thousands of people crowded into a diabetes exhibit in Denver. They waited in lines to test the newest blood sugar meters. Matt Hoover, a star of the small screen, spoke about how he lost 157lb (71kg) and gained a wife. Representatives dispensed gewgaws. “It's an insulated bag,” explained one, “So if you've got a hot chicken...” No one had a hot chicken, though. The diabetic diet can be a Spartan affair. Over at the “Cooking Cardiologist” presentation, a dietician announced that people with diabetes should feel free to enjoy raisins—just not too many raisins.

Not so many years ago such a scene would have been strange. Colorado is the kind of healthy, outdoorsy state where everyone seems to have a big dog and SUVs are splattered with mud. It has the lowest rate of obesity in the nation, and not coincidentally, about the lowest rate of diabetes. Just under 5% of Coloradans have been diagnosed with the disease.

But that is not all that low. And the fact that it is one of the lowest in the country suggests the extent of the diabetes epidemic in America. The disease has become more than twice as common since 1980, and the rate is rising precipitously. According to the Centres for Disease Control and Prevention, 7% of Americans, roughly 21m people, have diabetes. At least 54m Americans have elevated blood sugar levels and are at risk of developing the full-blown disease. Rates are considerably higher among American Indians, African-Americans and Latinos.

The economic costs of the disease were conservatively estimated at $132 billion in 2002, and the figure is rising. “If you look forward 10 or 15 years,” says Dr C. Ronald Kahn of the Joslin Diabetes Centre in Boston, “we really won't be able to afford the amount of health care this is going to cost.”

And the human costs are profound. Diabetes contributes to several hundred thousand deaths each year. It doubles the risk of heart disease and stroke, and it is the country's leading cause of adult blindness, kidney failure, and non-traumatic amputations. People with diabetes are also vulnerable to tangential conditions. According to the National Institute for Mental Health, people with diabetes may be twice as likely to become depressed.

Diabetes is not just an American problem, of course. According to the International Diabetes Federation, the global epidemic is “out of control,” affecting 246m people worldwide. Most live in poor countries. But

among rich ones the United States tops the charts.

Diabetes comes in two varieties, type 1 and type 2. Type 1 is thought to be genetically caused, and accounts for only 5-10% of people: its prevalence is rising, but slowly. Type 2 used to be called adult-onset diabetes, but that term has become less popular as more and more children are turning up with it. It is the source of the rapid rise in diabetes numbers. Obesity and a sedentary lifestyle are known to increase the risk of developing type 2, and the precipitous rise of diabetes in America is largely linked to the rise in obesity.

To be sure, plenty of obese people never develop diabetes, and plenty of fit people do: the causes of the disease are not purely behavioural. Only last week scientists announced that they had linked several genetic mutations to an increased risk of developing type-2 diabetes. Still, most people could forestall this type of diabetes by keeping their weight down and taking some exercise. And people who develop type-2 diabetes can improve their health by doing the same.

Because of the linkage between obesity and type-2 diabetes, the disease is sometimes patronisingly treated as a fringe issue—another problem for those poor, backwards Southerners. It is true that type-2 diabetes is more common in the fattest states. But dismissing it as a problem of couch potatoes is not especially helpful to the millions who have it. It is better to approach the disease with creativity.

Some politicians have managed to do so. In 2003 Mike Huckabee, then the governor of Arkansas, was diagnosed with type-2 diabetes. He lost 105lb and made improving public health, with an eye on reducing diabetes, a priority of his last two years in office. The state began giving state employees 30-minute exercise breaks and sending students home with “obesity report cards”.

If nothing else, the Healthy Arkansas initiative has encouraged other states to examine their efforts to prevent type-2 diabetes. Individuals bear the primary responsibility for their own health, but government support will not hurt. Mr Huckabee is now running for the Republican presidential nomination. His iron willpower is one of his strongest pluses.

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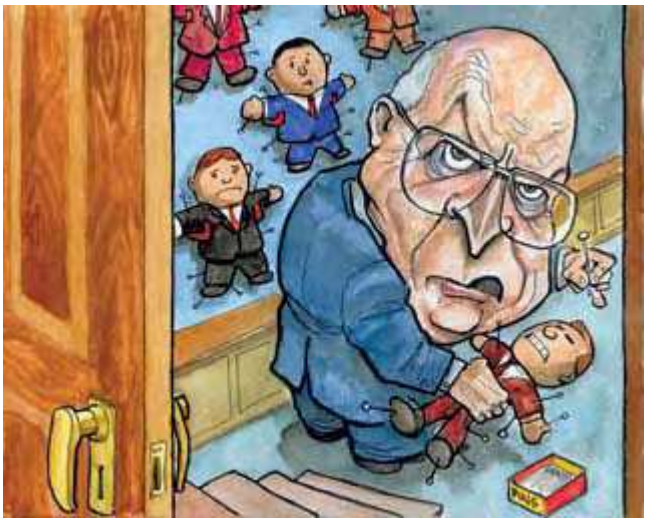
Lexington

Dick Cheney under the microscope

Feb 15th 2007
From The Economist print edition

A glimpse into the vice-president's secret world

Kevin Kallaugher



DICK CHENEY has never been a great fan of open government. His staff refuse to reveal how many people work in his office, let alone what they do there. He went to court to keep the membership of his energy commission secret. You can find the White House and the Pentagon on Google Earth. But the vice-president's official residence is pixellated out.

Which makes the trial of Mr Cheney's former chief of staff, Lewis “Scooter” Libby, all the more notable. The defence finally decided against calling Mr Cheney to testify. But nevertheless the trial, which is now reaching its final stages, has cast a rare shaft of light on the vice-president's dark world. His handwritten notes have been projected on giant screens. His bureaucratic fingerprints have been examined in the smallest detail.

It has always been clear that Mr Cheney is an exceptionally powerful vice-president. He has the largest vice-presidential staff in history (an estimated 14 national security advisers compared with Al Gore's four, for example), and vassals in most branches of government. But the trial has given a sense of how that power operates on a day-to-day basis.

The two characteristics that have emerged most clearly are ruthlessness and obsessive attention to detail. Mr Cheney was clearly determined to punish Joseph Wilson for casting doubt on some of the administration's claims about WMD.(Mr Wilson wrote an article in the *New York Times* claiming that, during an official visit to Niger in 2002, he had found no evidence that Saddam Hussein had tried to purchase nuclear material from the country.) And from the moment he cut Mr Wilson's article out of the *New York Times* and scrawled notes all over it, Mr Cheney devoted a striking amount of energy to the administration's offensive against him. According to Mr Libby and a former PR aide, he dictated talking points for press officers to use. He discussed the case several times a day with Mr Libby, told him to deal directly with selected reporters, and instructed him to leak a sensitive document. Mr Libby's leaks are what landed him in trouble: he disclosed that Mr Wilson's wife, Valerie Plame, was a CIA agent, which is potentially a crime, though he is being tried not for that but for giving misleading evidence when questioned.

Why was Mr Cheney so obsessed with Mr Wilson? Mr Wilson was a retired ambassador who had been

peddling the story of his trip to Niger around town for months. Mr Cheney's office had difficulty in getting chosen reporters to tune into its arguments; indeed, but for Mr Cheney worrying at it like a dog at a bone, Mr Wilson's article would have been long forgotten.

One possible explanation is that Mr Cheney knew that the administration's claims about WMD were false. But it seems unlikely. Mr Cheney continued to argue that Saddam possessed WMD long after Mr Bush had backed down. His problem was not that he was lying, but that he was so convinced that Saddam possessed WMD that he could not see evidence to the contrary. The other, more probable, explanation is that Mr Cheney was engaged in a personal vendetta, and that this was vicious inside-the-Beltway politics, not grand trickery.

Indeed, one of the most striking things about the trial is that it demonstrates just how much of a creature of Washington Mr Cheney really is. He may present himself as a plain-spoken son of Wyoming who eventually went on to become the no-nonsense CEO of a global company. But in reality he is the quintessential Washingtonian.

He started his career as a failed academic, dropping out of Yale after a few terms and never completing his PhD at the University of Wisconsin. But he flourished when he came to Washington: attracting the attention of Donald Rumsfeld, rapidly climbing the greasy pole, and becoming Gerald Ford's chief of staff at the age of 34. He had found his perfect milieu.

Conspiring and manoeuvring

During his years as an insider he has acquired the typical habits of mind of veteran Washingtonians: an obsession with spin and gossip, including an over-inflated sense of the importance of newspaper articles; a hyper-sensitive nose for threats; and, it would appear, a determination to destroy his enemies by whatever means necessary. He began his career in the White House by conspiring with Donald Rumsfeld to sideline the vice-president, Nelson Rockefeller, and to rein in Henry Kissinger (who then combined the jobs of secretary of state and head of the National Security Council). If Mr Libby's evidence is anything to go by, he has been conspiring and manoeuvring ever since.

It was also during the Ford administration that Mr Cheney seems to have acquired a profound distrust of the CIA. He became convinced that the CIA was underestimating the Soviet military build-up. He lent his support to something called “Team B”, a group of foreign-policy experts who made it their business to second-guess the CIA over the Soviet threat. Mr Cheney's distrust of the CIA grew even stronger in the 1990s, when he concluded that the agency had misjudged Saddam's military capabilities in the run-up to the first Gulf war. He relied on his own intelligence sources—the latter-day equivalent of Team B—and made repeated visits to the CIA headquarters in Langley to interrogate officers there on their intelligence. Mr Wilson was thus a ready-made target for Mr Cheney: an Iraq war sceptic who had been sent to Niger by a notoriously soft agency and who tried to ventilate his views in the newspapers.

All this still leaves the biggest question unanswered. Where did Mr Cheney get his fervour from? The average Washington insider is a consummate trimmer. Mr Cheney comes across as a man firmly in the grip of an ideology. It will take more than the Scooter Libby trial to explain him fully. But at least Americans have learned a little bit more about the power behind King George's throne.

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The Institutional Revolutionary Party

Can the old Mexico play its part in forging the new?

Feb 15th 2007 | MEXICO CITY
From The Economist print edition

A leadership election in the former ruling party could help President Calderón

Claudio Munoz

FOR seven decades, until Vicente Fox won the presidency in 2000, the Institutional Revolutionary Party (PRI) governed Mexico. Its political monopoly did not begin to wane until the 1980s, when its own left wing broke away to form the Party of the Democratic Revolution (PRD) and it was challenged from the right by Mr Fox's National Action Party (PAN). In last year's presidential election, the process of gradual decline produced the worst result ever for the PRI. Its candidate, Roberto Madrazo, an old-style political boss who never shook off an aura of sleaze, came a distant third, with 22% of the vote, failing to carry a single state.

And yet the PRI is stronger than it seems. It is the only party with a national presence: the PRD is absent from large parts of the north and the PAN from large parts of the poorer south. The PRI holds 17 of the 32 state governorships, many more than any other party. Moreover, the PAN's Felipe Calderón, Mexico's new president, won last year's election by the narrowest of margins over the PRD, whose candidate continues to dispute the result.

This leaves the PRI holding the balance of power in Congress, a position it has used to obtain the speaker's job in both houses. The PRI is also Mr Calderón's main hope of winning the legislative majority he needs in order to enact the big reforms of energy, taxes, public-sector pensions, telecommunications and education that Mr Fox tried and failed to obtain.

So it is not only the PRI itself that cares who wins a leadership vote on February 18th to succeed Mr Madrazo. Most pundits expect the winner to be Beatriz Paredes, a tough political moderniser. Still only 53, her long political career includes the governorship of the small state of Tlaxcala. In last year's election she ran for mayor of Mexico City, and went some way to restoring her party's presence in the capital, a PRD bastion since 1997. She headed the PRI caucus in the lower house of Congress from 2000 to 2002. Mr Calderón led the PAN caucus during that time, and the two are said to have had a good relationship, even though little legislation emerged.

In 2002 Ms Paredes was narrowly defeated by Mr Madrazo in an open primary for the party leadership. That poll was marred by claims of fraud. This time her main rival is Enrique Jackson, an experienced former senator. Together with several minor candidates, they are battling for the votes of 17,000 party officials.

For all its residual strengths, the PRI has struggled to adapt to life in opposition since losing the presidency in 2000. Its position in the centre is a potential asset, as Mexican politics is tugged between the conservative PAN and the PRD to the left. But so far, says Dan Lund, a pollster in Mexico City, the PRI has failed to make clear what it now stands for. The first task of a new leader will be to sharpen its identity.

Ms Paredes might manage to do that. “She has a sense of where Mexico should be going,” according to Luis Rubio of CIDAC, a think-tank. Although hailing from the party's left, she led an internal campaign to amend its statutes to remove its previous blanket opposition to private investment in energy. But even she may find it hard to stamp her authority on what has become an increasingly fissiparous party.

Many of the PRI's governors relished Mr Madrazo's weak leadership during what one political scientist, Federico Estévez of ITAM, a university in Mexico City, says has been the most undisciplined period in the party's recent history. Half-a-dozen of the PRI state governors are in their 40s and have presidential ambitions. Many who run northern states are modernising technocrats. But the PRI's southern wing contains several “dinosaurs”, as its old-style political bosses are known. These include Ulíses Ruiz, the governor of Oaxaca, who faced widespread calls to step down last year during months of protests against his despotic rule. Mario Marín, the governor of neighbouring Puebla, is accused of shielding a corrupt businessman linked to a paedophile ring.

During the Fox presidency, the PRI's leaders saw advantage in blocking change. Mr Rubio argues that its poor result in last year's election gives the PRI an incentive to be seen as the party that gets things done. But while its northern wing may agree with the PAN on policy, it competes with it electorally. Few policy differences separate Ms Paredes from Mr Jackson. But she is the more forceful character, and has experience of working with Mr Calderón. A victory for her just might be good for the government, as well as for the PRI.

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Bolivia

Tin soldiers

Feb 15th 2007 | LA PAZ
From The Economist print edition

The political vendetta behind another nationalisation

IT IS becoming a familiar ritual. On February 9th Evo Morales, Bolivia's socialist president, flanked by troops, stood in front of the Vinto tin smelter and declared it nationalised. Last May he did the same to his country's natural-gas industry. In October he said it was the turn of mining. Yet with Mr Morales, whose rallying cry is “Bolivian resources for the Bolivian people”, sometimes the symbolism and the rhetoric is more ambitious than the reality.

So it was with natural gas, where he later signed new, tougher contracts with multinationals. The threat to nationalise mining quickly changed to a proposal to raise taxes on private mining companies. And even that was watered down after 20,000 members of mining co-operatives marched on La Paz earlier this month.

Vinto, officials claim, is a special case. “It's about righting a wrong,” says Guillermo Dalence, the mining minister. “The plant was taken from the Bolivian people fraudulently and we are reclaiming it.”

The smelter has a controversial history. Built by a military government, it was privatised in 1999. The buyer was Allied Deals, a British outfit later liquidated after its directors were charged with fraud over an unrelated scam in the metals market.

Allied Deals paid $27m for the smelter and the nearby Huanuni mine. In 2002 its liquidator sold Vinto for $6m to a consortium headed by Comsur, a mining company owned by Gonzalo Sánchez de Lozada, Bolivia's president from 1993-97. Mr Sánchez de Lozada (known to Bolivians as Goni) was elected again in 2002, but was toppled a year later by protesters who included supporters of Mr Morales.

Goni is a hate figure in Bolivia today. That is partly because 67 people were killed when he called out the army against the protests in 2003. The government is backing moves to extradite him from the United States to face a trial which the former president's lawyers say is politically motivated. But Goni is also hated because he oversaw the privatisations that Mr Morales is now trying to reverse.

In 2005 Goni sold Comsur's Bolivian assets (which included several mines) to Glencore, a mining company based in Switzerland. The price was not disclosed, but it was said to be $220m, of which $90m was said to be for the smelter. According to one well-placed source, a side-letter required Comsur to repay Glencore in the case of nationalisation.

Since the world tin price was very low when Vinto was privatised, and the smelter had lost money in state hands, it is far from clear that Bolivia was swindled. The tin price has since risen sharply, reaching its highest level since 1985 this week. So in addition to targeting Goni, the nationalisation may boost government revenues.

Glencore is demanding compensation for the smelter. It says the seizure violates a 1991 bilateral investment treaty between Bolivia and Switzerland. The government says it, too, will seek compensation in any international arbitration. It claims that Glencore did not register the purchase in Bolivia and, somewhat improbably, that the smelter was worth $140m when it was privatised. “All foreign companies that operate within the legal framework have our guarantee that they won't be touched,” says Mr Dalence. Investors may not be wholly reassured.

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Rebranding Canada

Tenacious, smelly—and uncool

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From The Economist print edition

Canada looks for a new image

CLOSE your eyes and think of Canada. Perhaps the picture that comes to mind is one of a country of cold winters and civilised prosperity. But Stephen Harper, the country's Conservative prime minister, has another idea. This month he suggested that the national image was best captured by the wolverine, a sort of weasel.

That seems odd. Wolverines have some unpleasant habits. They emit a foul-smelling musk and eat carrion. They are close relatives of skunks and their name translates as “glutton” in French. But Mr Harper was thinking of their reputation for aggression and tenacity in the face of much larger predators. Canada is no mouse beside the American elephant, but a wolverine next to a grizzly bear, he said. “We may be smaller but we're no less fierce about protecting our territory.”

Mr Harper knows something about rebranding. He has changed his own image from angry western neo-conservative to congenial centrist. He is busy trying to repaint in green a government of climate-change sceptics. The wolverine image is presumably designed to assure Canadians that his friendliness towards George Bush is not softness.

In fact, Canada already has an official national animal: the beaver. It is industrious but shy, and spends most of its time eating through trees in order to create dams. That worthy, but undynamic, image is just the one that some Canadians would like to live down.

So what would the image consultants have advised? Animals are fine, they say. The United States is symbolised by the bald eagle, and then there are the Chinese dragon, the Russian bear, and the British lion. But the prime minister may have tried too hard. The chosen beast has to appeal to the heart rather than the head, which the wolverine does not, says Nicolas Papadopoulos, a country-branding specialist at Ottawa's Carleton University.

The Economist has already made its suggestion. We put a moose in sunglasses on our cover in 2003 when we argued that Canada's combination of muscular North American capitalism and socially tolerant democracy was rather cool. With global warming melting the frozen north, the image is bang up-to-date. But the competent Mr Harper just doesn't do cool.

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Ecuador

Debates and defaults

Feb 15th 2007 | QUITO
From The Economist print edition

Mixed signals from the new president

Get article background

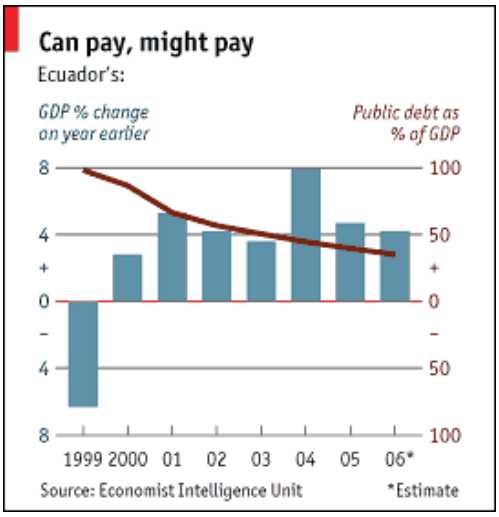
IN HIS campaign for Ecuador's presidency, Rafael Correa made two promises: to set up a Constituent Assembly to wrest power from what he called a corrupt “partyocracy” and to spend less on debt and more on social programmes. In little more than a month in office he appears to have notched up victory on the first point but to be preparing for a tactical retreat on the second.

On February 13th the Congress agreed to back Mr Correa's plan for a referendum on calling the assembly. Since the constitution was drawn up only in 1998, it is hardly in need of updating. But Mr Correa says the assembly will “revolutionise” the country, presumably by replacing the current political institutions.

For that reason, most of Ecuador's political parties opposed the plan. Swayed by Mr Correa's popularity and the rowdy protests by his supporters, some swiftly changed their mind. With much of the opposition absent, Congress voted by 57 to 1 to approve the holding of a referendum on April 15th on whether to set up the assembly. But it wrote into the law a provision intended to prevent the assembly replacing elected officials.

On the debt, Mr Correa seems to be having some second thoughts. His finance minister had said this week that while the government would not make a $135m interest payment on its bonds when this falls due on February 15th, it would pay within a 30-day grace period. But on February 14th the government said that it had ordered the payment to be made.

That decision reflects advice from many quarters, not all of them the obvious ones. Thanks to higher oil revenues and reasonable economic growth, Ecuador can afford to pay its debt (see chart). A team of officials from Argentina, which defaulted on $81 billion of bonds in 2001, advised Mr Correa that in Ecuador's circumstances default was not the best option.



Intriguingly, some financial sources say that Hugo Chávez's Venezuela may also have urged the government not to default. Venezuela holds at least $300m in Ecuadorean bonds. It has offered Ecuador a $1 billion loan at 7% interest—a cheaper rate than the coupon on the bonds.

A future default cannot yet be wholly ruled out. Lacking a political party of any significance, Mr Correa is seeking to govern through popularity alone, at least until the assembly is functioning. The government is still working on a longer-term plan for the public debt. A hard line would appeal to its more radical supporters.

The risk premium on Ecuador's bonds has risen sharply since Mr Correa's victory in the presidential election in November. This week, however, it fell to its lowest level of the year.

Mr Correa has taken to calling himself a “21st-century socialist”, a label pioneered by Mr Chávez. His allies insist this is not a cover for authoritarianism. “We are radically democratic, that is 21st-century socialism,” says Gustavo Larrea, the interior minister. Ecuador may not have to wait long to find out if that is true.

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Chile

Transport heaven and hell

Feb 15th 2007 | SANTIAGO
From The Economist print edition

First commandeer your bus

Get article background

DURING two decades of rapid economic growth, Santiago has gone from a compact city at the foot of the Andean cordillera to a sprawling metropolis of some 6m people. But the capital's transport systems have failed to keep pace. Santiago has a modern metro, which has recently doubled in size, to four lines, at a cost of $1.3 billion. There are several new urban motorways. But most *santiaguiños*, especially poorer ones, still rely on private bus services, whose chaotic mesh of routes has grown, barely planned, over decades.

On paper, re-organising the bus service from scratch seemed like a good idea. A radical plan to do so, called Transantiago, was first proposed by the previous government in 2002. It involves replacing the dilapidated buses and anarchic routes with a fleet of articulated buses plying main arteries, linked to local feeder services. The advantages seemed clear: fewer buses clogging the roads, less pollution and safer transport without any increase in fares. But when the new system came into force on February 10th, the result was chaos.

EPA

Change, change and change again

The old buses were frequent and stopped everywhere. Now a typical journey involves several changes. An abysmal information campaign featured a route map of infinite complexity. But the main complaint this week as queues of would-be passengers spilled into the road was of not enough buses, even though February is a holiday month. On one evening, stranded passengers commandeered two buses going in a different direction to take them home.

Just teething troubles, says the government. The test of that will come next month, when schools go back. The system is designed to make more efficient use of both the metro (where passenger numbers are expected to double) and the buses (whose total number has been cut by a third). Critics say that is a recipe for a sweaty commute.

Providing an unsubsidised system on a fare of 77 cents looks ambitious. The biggest potential headache is the new system's pre-paid smart card, which will be the only way to pay the new fare covering both bus and metro and to distribute revenue among different bus companies. In tests, the card has proved far from foolproof. Its introduction was delayed until February 16th, giving passengers several days of free travel. There are fears that it may not work at all.

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Thailand and Malaysia

In need of help to douse the flames

Feb 15th 2007 | BANGKOK
From The Economist print edition

AP

Malaysia has offered help to tackle the violent separatist insurgency on their mutual border. But no end to the violence is in sight

Get article background

BOMBINGS, shootings or, more recently, al-Qaeda-style beheadings now happen almost every day in Thailand's southern provinces. Bloodthirsty but strangely publicity-shy separatists attack symbols of Buddhist Thailand's rule over a region whose people are mostly Muslim and ethnic-Malay. Teachers and monks, not just soldiers and police, are targets now. Muslims are also regularly murdered, either in revenge for killings of Buddhists or because the militants suspect them of collaborating with the authorities.

In the most gruesome incident of recent days, an elderly Buddhist man was beheaded in Pattani province on February 8th. His head was later found in a roadside plastic bag. A note reportedly left near his corpse said it was revenge for a grenade attack on a Muslim tea-shop. The conflict has risen and subsided several times since Thailand annexed the region, formerly a Malay sultanate, in 1902. Violence surged again in 2004, since when around 2,000 people have been killed.

When a wave of bombs hit Bangkok on New Year's Eve, Thailand's military government was quick to deny the insurgents had planted them. It blamed supporters of Thaksin Shinawatra, the prime minister deposed in last September's coup. But one of several police squads investigating the explosions now says that a suspected southern militant was caught on camera near one of the blasts.

The violence continued unabated as Malaysia's prime minister, Abdullah Badawi, visited Bangkok this week. Mr Badawi offered to mediate with the militants. In late 2005 Mr Badawi's predecessor, Mahathir Mohamad, already out of office, brokered talks between separatist leaders and Thai officials. But Thai ministers later contradicted themselves on whether Mr Badawi's offer was welcomed. What the Thais do want is help sealing the border, across which southern Muslims, including militants, easily slip. Mr Badawi and his Thai counterpart, General Surayud Chulanont, agreed on measures to stop people holding both Thai and Malaysian identity cards; and Malaysia will offer training to boost Thai Muslims' job prospects.

Mr Badawi has an incentive to help, since he clearly does not want what his foreign minister this month called a “hotbed of international terrorism” to emerge on Malaysia's doorstep. But the treatment of Thai Muslims is a sensitive subject in northern Malaysia, where the country's Islamist opposition is strong. So Mr Badawi will not want to risk providing political ammunition to his opponents.

Co-operation would be a welcome change from the two countries' frequent rows over the Thai south. Mr

Thaksin used to accuse Malaysia of sheltering the militants. He was furious when, in 2005, it refused to send back around 130 Thai Muslims who had fled across the border, claiming their lives were in danger.

Since the Thai coup, there have been tensions over a security barrier that the Thai generals want to erect along the border. The Malaysians were miffed at General Surayud's claim that funds were being raised for the insurgency by extorting money from restaurants selling Thai *tom yum kung* soup in Malaysia.

Mr Thaksin dismissed the separatists as “bandits” and tried to crush them by military force. This led to atrocities such as the Tak Bai massacre of October 2004, when Thai soldiers gunned down at least six Muslim protesters and then killed 78 more, mostly through suffocation, by cramming them into army trucks. Last year Mr Thaksin clashed with Sonthi Boonyaratglin, his army chief (and a Muslim), who wanted talks with the rebels. Soon after, General Sonthi led the coup against Mr Thaksin.

The military government has been more conciliatory. General Surayud has apologised for the Thaksin government's brutal mishandling of the conflict. Around 90 southerners, held for two years over the Tak Bai incident, have been released without charge. And a civilian-led agency to oversee the southern provinces and build links with local Muslim leaders—which Mr Thaksin had scrapped—has been revived.

But, as General Surayud admitted this week, this softer approach has yet to show results. He also lashed out at his fellow general, the army chief, for failing to make the south more secure, complaining that his work “does not meet our expectations.” The national police chief was sacked earlier this month, ostensibly for failing to solve the Bangkok bombings. Duncan McCargo, an academic studying the insurgency, says the Thai security forces have proved incapable of fighting it. The militants' success means they are under little pressure to negotiate or even to spell out what exactly they want.

The obvious solution is “special autonomy” for the Thai south, like that granted to the Philippines' Muslim south and to Indonesia's Aceh province. But this is a distant prospect. It may be extremely hard to persuade ethnic Thais to let southerners govern themselves and to give their Malay dialect official recognition. Some Thai nationalists are even demanding that Buddhism be made the state religion in the new constitution now being drawn up. Mr McCargo says an eventual solution may demand a leader with a strong democratic mandate—as Indonesia's President Susilo Bambang Yudhoyono had with Aceh.

General Surayud is, sensibly, warning his countrymen that the road to peace will be arduous. The danger is that itchy generals tire of talking and revert to seeking military solutions, becoming once again the separatists' best recruiting-sergeant.

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Kashmir

Encountering reality

Feb 15th 2007 | SRINAGAR
From The Economist print edition

India's security forces own up to a few abuses in Kashmir

"DISCOVER Jammu & Kashmir", a sleek new visitors' guide, appeared this week. The product of the tourism department of the government of that Indian state, it exudes all the optimism of a rising India. But lately the police have been making their own discoveries in Kashmir, none of them likely to lure holiday-makers.

Late last month, a police investigation in Ganderbal district turned up the body of a 35-year-old carpenter. He had allegedly been killed and buried in December by Indian soldiers who, in an effort to flaunt their prowess, claimed he was a Pakistani militant fighting Indian rule. Such "fake encounters"—executions by the security forces—are not new in India, and especially not in Kashmir, where a 17-year-old insurgency has claimed at least 40,000 lives. Human Rights Watch, a lobby group, last year accused Indian forces of often executing alleged militants, claiming they were killed in an exchange of fire, rather than bringing them to trial. "Superior officers", it alleged, knew of the practice, and it "has led to a culture where security forces feel they can murder persons in their custody for rewards and promotions."

EPA

Out of sight, not of mind

In Ganderbal India did not, as usual, shrug off the accusations; it kept digging. Within a week the police had unearthed four more Kashmiris buried as Pakistani militants. The corpses were exhumed publicly, in front of the victims' families, the press and thousands of seething locals, many calling for the heads of the accused murderers. Ghulam Nabi Azad, the state's chief minister, and the army ordered separate inquiries. Eight police officers have been arrested, including Hansraj Parihar, the top policeman in Ganderbal, who is accused of having planned the killings.

Mr Parihar ran one of the police's much-loathed "Special Operations Groups" (SOGs). These outfits were in theory disbanded and merged with the regular police soon after the present coalition government in Kashmir took office in 2002. It promised to end human-rights abuses such as "encounter killings" and to show a "healing touch". Yet the SOGs still operate, and a group in Kashmir campaigning against the disappearances of citizens into police custody says the number continues to rise, to more than 10,000 since the start of the insurgency. After taking office, the new state government promised to investigate nearly 4,000 disappearances. It now estimates the number disappeared at just over 1,000. Both state and central governments have promised "zero tolerance" of human-rights abuses.

Many are not convinced by the government's recent display of humility. "It's a whitewash," says Sheikh Showkat Hussain, a political scientist at Kashmir University in Srinagar. "They identify some scapegoats and then punish them so they can wash their hands of wrongdoing."

India has had some recent success in reining in the insurgency—in part as a result of its peace process with Pakistan, a sponsor of the rebellion. More than 1,000 people died in the conflict in 2006, but that was less than a quarter of the death toll in 2001. India says there was also a marked drop in the number of militants infiltrating from Pakistani-controlled Kashmir.

Even India's critics see the government's acquisition of a conscience about abuses such as fake encounters as progress of a sort. But justice has yet to be done, and a culture of impunity among the 600,000 Indian soldiers and police in Kashmir lingers. "It is premature to say this is a victory for us," says Pervez Imroz, a human-rights lawyer in Srinagar. But he concedes that disappearances becoming a public

issue “could certainly be seen as a positive.” The tourism department might disagree.

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Taiwan

Ma on the charge

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Indicted? Run for president

ATTACK can be the best form of defence, in politics if not the law. On February 12th Ma Ying-jeou, chairman of Taiwan's main opposition party, the Kuomintang (KMT), was officially charged with corruption. The same day, he declared himself a candidate for the island's presidency in next year's election.

Mr Ma enjoys a reputation as Taiwan's cleanest (and most handsome) politician. Yet he is accused of forgery and of having embezzled more than 11m Taiwanese dollars ($333,000) from a special allowance for public relations during his stint as Taipei's mayor from 1998 to 2006.

AP

Ma makes a fist of it

According to the indictment, Mr Ma paid the allowance into his own bank account and declared it as his personal property. Mr Ma blames the vagueness of the allowance's purpose. First he claimed he had interpreted it as “public funds” and then shifted to argue that it was part of his salary. His lawyer protested his innocence, arguing that if he were trying to steal the money he would not have reported it so openly. Prosecutors disagree, claiming there is nothing to suggest the allowance could be considered as salary. Eric Chen, the prosecutor, said that Mr Ma's argument did not hold water, since the allowance was intended for spending. He described Mr Ma's behaviour as “no different from stealing a bicycle without wearing gloves” (ie, while leaving evidence).

Citing Mr Ma's record as a blood donor and philanthropist, the KMT dismissed the charges as political harassment from the ruling Democratic Progressive Party (DPP). Mr Ma gave warning of a looming “winter of Taiwan's democracy”, and vowed to transform his grievance into power in the 2008 presidential election. This, he said, was the best way to prove his innocence—a curious argument, especially from a former justice minister.

Mr Ma has not yet won his party's nomination, and indeed has stood down as chairman. Hsu Yung-ming, a political researcher at the Academia Sinica, a think-tank, believes his announcement may be designed to secure the nomination for himself and protect it from ambitious colleagues waiting in the wings.

Mr Ma is still seen as the party's best hope of winning the election. An implicit threat to run as an independent carries weight. Within hours, the KMT's central committee dropped the bar it had maintained on nominating indicted criminals as candidates, and decided to urge Mr Ma to stay on as chairman. This may have disappointed the party's honorary chairman, Lien Chan, who is reportedly interested in a third run at the presidency, and the speaker in the legislature, Wang Jin-pyng, who has already shown his ambition.

China, too, will be disappointed if Mr Ma's campaign suffers serious damage, though it has avoided any official reaction and reporting of the case has been scanty. The government in Beijing would prefer to deal with a KMT president. The present, DPP, incumbent, Chen Shui-bian, continues to irk it by sidling ever closer to formal independence from China. This month Taiwan's central bank, post office and some state-owned companies have dropped from their names the word “China”—a relic of the days when the KMT government in Taiwan claimed sovereignty over the mainland. China objected to the name changes, and America, anxious to avoid a flare-up between Beijing and Taipei, also discouraged them.

Mr Ma and the KMT are not out of the running. Corruption charges come with the territory. Last November, prosecutors also indicted the president's wife, Wu Shu-chen, and said Mr Chen himself was

protected only by his office.

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Afghanistan's Hazaras

Coming up from the bottom

Feb 15th 2007 | KABUL
From The Economist print edition

The present regime has made things a bit better for Afghanistan's underclass

"WHEN God created the donkey, the Hazaras wept," runs a particularly heartless Afghan saying. Historically the servant underclass, the Hazaras, who are members of the Shia Muslim minority and have a distinctive Central Asian look, have long been the butt of such jibes. Nowadays it is a little different. A painting in the office of Hussain Yasa, the editor of *Outlook Afghanistan*, a magazine, depicts the stereotypical Hazara man: a threadbare street porter. Yet the basket on his back is laden not with the usual wood or cement, but with a computer and dangling mouse.

The Hazaras thank the present Afghan regime of Hamid Karzai, the president, for their better times. In Khair Khana, a bomb-scarred suburb of western Kabul that is a Hazara enclave, the enthusiasm for his administration and its Western allies is far from the jaded cynicism displayed by most Afghans. Many Hazaras, such as Ghulam Abas, an oil-smeared fuel salesman, wish Mr Karzai a long life, thanking him that the Hazaras for the first time enjoy theoretical, if not yet actual, equality.

Afghanistan's new constitution accepts Shia Islam as a state religion, and gives all Afghans equal legal status, including the right to hold public office and to live and work where they want. As late as the 1970s, Hazaras were still banned from the army officer corps. They have been largely confined to Bamiyan, a marginal and backward province, since the 1880s.

"In terms of the law we now have equality," says Mohammad Mohaqeq, the Hazaras' political leader, "but it will take at least another ten years to destroy anti-Hazara sentiment." The Hazaras won a disproportionate number of parliamentary seats in the 2005 election. The complicated electoral system bewildered many Afghans but favoured the keen and disciplined Hazaras. Mr Mohaqeq says they claim 43 seats out of 249, or 18% of them, despite being no more than 9-13% of the population.

Hazaras show the same single-mindedness in their commitment to education. The Hazara district of Jaghori, in the southern province of Ghazni, borders Taliban-dominated territory where hundreds of schools have been burnt in the past two years. Yet 65 schools are open and literacy rates far outstrip the national average.

Hazara political leaders adopt a conciliatory and pragmatic approach. Mr Mohaqeq backed Mr Karzai's candidate for parliamentary speaker, despite his record as an ethnic-Pushtun militia commander accused of involvement in the massacre of 800 Hazara civilians in 1993. This outraged many Hazaras, but Western analysts say such realpolitik accounts for the Hazaras' strength (four seats) in the cabinet.

Yet Hazara successes are breeding their own problems. The community's migration to the cities over the past five years has caused local resentment, particularly in Herat. They are accused of acting as agents for their co-religionists in Iran, receiving money and business support in return. Many of the Hazaras who have settled in Herat were refugees in Iran during the war years, fuelling such suspicions. Iranian cultural influence has grown steadily, particularly in Herat, since 2001. This is largely through trade ties and redevelopment work, though charges of more sinister machinations persist. As one Western analyst puts it, Iran is “keeping its foot in the door”. Iranian officials themselves have hinted at their ability to destabilise Afghanistan as well as Iraq. But there is no reason to believe that the Hazaras would be Iran's natural ally in this. For the time being, they clearly equate the removal of NATO troops with an end to their own renaissance—and a return to the divisions that brought their past suffering.

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Inflation in India

Something to cry about

Feb 15th 2007 | DELHI
From The Economist print edition

Rising food prices are part of a broader inflationary threat

RULING politicians in India have a wise regard for the onion, which on occasion has proved as potent at removing governments as at flavouring the nation's curries. In 1998 a coalition led by the Bharatiya Janata Party (BJP) was defeated in a Delhi state election after a six-fold rise in onion prices. On February 13th the current ruling coalition, led by the Congress party, fought an election in the neighbouring state of Punjab, amid griping over the price of food, including onions. After rising by 50% in the past six weeks, the wholesale price of onions is between seven and 15 rupees (15-32 cents) a kilo—more than twice the price a year ago. Now it is the BJP's turn. It has launched weeklong protests against rising food prices.

It is not just food that is getting more expensive. The wholesale-price index (WPI), the most commonly used measure, rose to an annualised 6.6% in the week ending January 27th, a two-year high and sharply above the ceiling of 5.5% set by the Reserve Bank of India (RBI), the central bank. Having several times raised interest rates in recent months, the RBI on February 13th made another move to curb inflation, raising the proportion of banks' assets they have to hold as cash from 5.5% to 6%.

In the short term the RBI's modest monetary tightening is not going to bring down the price of vegetables or grain. Annual food-price inflation was last month 10%, compared with 7.6% a year earlier. Food prices have a weighting of only 15.4% in the WPI, but are of huge concern to poor Indians, who spend much of their income feeding their families. Prices have been pushed up by bad weather abroad, bringing a poor Australian wheat harvest, and by poor economic management at home. The price of wheat has risen by nearly 12% in a year. India's government is worried. On February 9th it banned wheat exports, though Indian wheat prices are already higher than world prices. To have cheaper flour, India's masses must hope for a decent wheat harvest next month. This has been predicted, after several days of gentle rain across northern India this week.

Edible-oil prices have been shooting up by as much as 43% in a year, obliging the government last month to cut excise duties. It also scrapped tariffs on maize imports until the end of the year. In the longer term, lower and steadier food prices depend on better roads and electricity. At present, about 40% of India's fruit and vegetable harvest rots before reaching markets. One hope is that the current enthusiasm for organised retailing from Indian firms such as Reliance will lead to huge improvements in supply chains. Hopes would be higher still if retailing were open to foreign giants, such as Wal-Mart, which are currently restricted to launching wholesale operations in India.

Yet the government's most pressing need, with GDP growth of 9.2% predicted this financial year (ending in March), is to prevent India's economy from boiling over. Prices for manufactured goods, which have a weighting of 64% in the WPI, have risen by 6.6% over the past year. Wages are soaring; property and financial-asset prices are bubbling; lending to companies and households has increased by 30% in the past 12 months. The RBI will probably have to tighten monetary policy further, in an effort to cool the overheating economy. To sustain India's current growth, longer-term measures, such as cutting subsidies and building infrastructure, are needed. But that takes too long to win the votes of those whose most pressing concern is the price of onions.

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Delhi's monkey menace

Simian agonistes

Feb 15th 2007 | DELHI
From The Economist print edition

The capital's street life under threat

VISITORS to Delhi's elegant parliament, designed by Sir Edwin Lutyens, have long witnessed a tribe of brown rhesus monkeys loitering outside picking each other's fleas—a display of public-spiritedness rare among those inside. Soon, no more. On February 8th the High Court in Delhi ordered its rulers to consider expelling an estimated 6,000 urban monkeys to a reserve outside the city. It could have been worse; the judges ruled against sterilising them.

Delicate sensibilities, and the usual administrative incompetence, have made a shambles of efforts to contain the “monkey menace”, as newspapers have labelled it. Victims of Delhi's rapid sprawl, which has subsumed their forest habitats, the monkeys can indeed be irritants. Many locals deem them incarnations of the Hindu monkey-faced God, Hanuman, and so feed them, which has made them demanding. They have been known to terrorise food-sellers, get drunk on stolen whisky and break into public buildings—including the Defence Ministry, which they ransacked one night. Workers next door at the Foreign Ministry contracted jaundice after a monkey drowned in the water-tank.

Since then various efforts have been made to remove the monkeys. Several hundred were trapped and released in the forests of neighbouring states, which then refused to accept any more. Three hundred monkeys, which were trapped and destined for the forests of Madhya Pradesh, have since been in legal limbo in a concrete-and-wire enclosure outside Delhi. On February 14th, the Supreme Court ruled that the High Court in Delhi could decide their fate. Animal-rights activists have deplored this enclosure and last month hounded the city's chief monkey-trapper into quitting. A different scheme saw bigger, more aggressive langur monkeys introduced to scare the rhesus monkeys away. This was a fiasco: the terrified animals scattered about the city, doing more damage.

The latest idea, to shift the animals to a 100-acre (40-hectare) sanctuary on Delhi's outskirts, is a better bet. Meanwhile, the Supreme Court has just banned Delhi's roadside foodstalls—all 300,000 or so of them. The judiciary seems minded to make the city not just a bit more orderly, but much more boring.

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The Palestinians

A holy but puzzling alliance

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From The Economist print edition

The deal that the main Palestinian factions have struck may stop bloodshed between them for now, but leaves the rest of the world unsure how to proceed

Claudio Munoz

THE news that the Palestinians' Fatah and Hamas parties had hashed out a deal on a unity government after months of wrangling and internecine fighting seemed to some too good to be true—and maybe it was. As *The Economist* went to press on February 15th, Fatah's Mahmoud Abbas, the president of the Palestinian Authority (PA), had postponed the formation of the new government and was in talks with Hamas's Ismail Haniyeh, the prime minister, to resolve a dispute over the running of the PA security forces, one of the keystones of political power.

If the deal breaks down it will be a slap in the face of Saudi Arabia's King Abdullah, who hosted the talks in the holy city of Mecca and invested much prestige in the outcome. He also reportedly pledged $1 billion to the PA, though the Saudis deny it. But even if the Palestinians patch up their differences for now, the relief may be only temporary.

Hamas, which took over the PA after an election a year ago and has since been struggling against an international boycott, had agreed to concede six of the 19 cabinet posts to Fatah and another four to independent people or parties, among them the powerful interior, finance and foreign ministries. But it would not agree unambiguously to the platform Mr Abbas wanted: recognition of Israel, renunciation of violence and a commitment to previous agreements between the PA and Israel, these being the three conditions the Western world has set for lifting the boycott. After protracted argument, Mr Abbas's letter to Ismail Haniyeh, the prime minister, called on Hamas to “respect” or “honour” previous accords rather than “commit” to them. In case anyone did not get the message, Hamas spokesmen quickly went on air to emphasise that Hamas was still not recognising Israel's right to exist.

This has put the rest of the world in a quandary. Ehud Olmert, Israel's prime minister, at first poo-poohed the Mecca deal, then said Israel was “studying” it. Western countries have made cautiously encouraging noises, but say they are waiting to see what happens at a meeting between Mr Abbas, Mr Olmert and Condoleezza Rice, the American secretary of state, on February 19th.

The ambiguity in the Mecca deal once again highlights diametrically opposed views of Hamas. Optimists note that Hamas has given up the only three jobs with real power besides that of prime minister. And for all the debate about “respect” versus “commitment” to past agreements, the deal does not contain a get-

out clause Hamas once insisted on: that such agreements be “in the higher interests of the Palestinian people”, leaving vague what those interests were. On this view, such concessions—following Hamas's recent statements that it recognises Israel as a “reality” though not its right to exist, and its previous decision to take part in elections for the first time—show that the party can be pragmatic, and that further encouragement will eventually coax it towards full peace with Israel.

Those still suspicious, meanwhile, say that in Mecca Hamas showed its intransigence again—and was rewarded. Worse still, by giving in to Hamas's terms, Fatah has elided what was once a clear distinction between them. Not only has Mr Abbas failed—they say—to tame Hamas; unless he extracts a clearer commitment from the new government, he too will cease to be a legitimate peace partner.

To try to make him deliver, Israel has been using the period of uncertainty before the trilateral meeting to spread the suspicious view. Its government is feeding the media stories about the blurring between Hamas and Fatah, lobbying the world to lean on Mr Abbas, and piling pressure on him directly by saying it will not discuss any of the main issues of a Palestinian state (its borders, the future of refugees and the status of Jerusalem) at the meeting.

But it is doubtful that Mr Abbas can pull a new rabbit out of the hat in the next few days. That will leave George Bush's administration in a dilemma over how to treat the new government, if there is one. Making concessions to it would upset Israel and its strong supporters in Congress. But making none would antagonise Saudi Arabia, which, thanks to the Middle East's shifting politics, is beginning to compete with Israel as a strategic American ally.

Indeed, the Mecca deal may ultimately mean as much for regional politics as for Hamas and Fatah. Once Hamas's main backer, Saudi Arabia had been stung by its refusal to accept the Arab League's proposal of 2002—written largely under the aegis of the present Saudi king—to normalise Arab relations with Israel if Israel accepted a Palestinian state within the borders of 1967. Saudi Arabia had also reluctantly accepted the world boycott of Hamas. But now it has changed tack.

One reason is disquiet at the sight of Iran becoming Hamas's chief backer in its place. It is keen to reverse that trend, both for the sake of its own status and as part of a broader attempt by Sunni Muslim states to counter Shia Iran's regional influence. Being midwife to a successful Hamas-Fatah deal would help it achieve that goal.

And a stronger Sunni alliance is precisely what America wants for its own goals of stabilising Iraq and halting Iran's nuclear programme. Cold-shouldering Mr Abbas, therefore, would not only mean giving up on the most doveish Palestinian leader there is; it would also alienate other countries that America is trying to court.

Yet America inherently distrusts Hamas, and feels it cannot force too much on Israel. Maybe it can steer a middle path by not objecting if European countries want to restore some aid to the PA and by pushing a reluctant Mr Olmert to give Mr Abbas what diplomats are calling a “political horizon”: a dim outline of what a peace deal will look like. But with Mr Olmert himself hamstrung by hardliners in his coalition, on the horizon is exactly where peace is likely to stay—for now.

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Israel and Palestine

A spark in a tinderbox

Feb 15th 2007 | JERUSALEM
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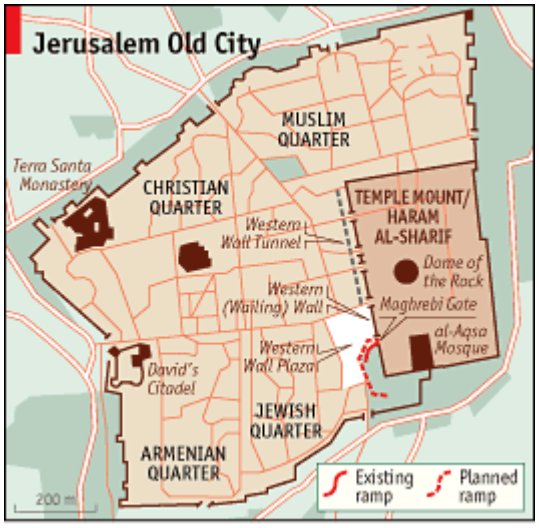
Who is to blame for the latest row over holy sites?



IN THEORY, Israel's plans to rebuild the ramp should have been uncontroversial. It gives both non-Muslim tourists and Israeli security forces access, in the heart of Jerusalem's old city, to what Arabs and Muslims call the Haram al-Sharif ("the Noble Sanctuary") and what Jews revere as their Temple Mount (see map). The ramp up to the Maghrebi Gate, which collapsed in 2004 and was replaced by a temporary wooden walkway, was part of a delicate but long-standing status quo agreed between Israel and the Muslim religious authorities, known as the Waqf.

Instead, the work that began this month sparked protests. Israel accuses the protesters—in particular Sheikh Raed Salah, head of the radical northern branch of Israel's Islamic Movement—of incitement. It has a point. Conspiracy theories about the holy site spread like bushfire: many Muslims are convinced that Israel wants to destroy the mosques within the compound where the Jewish Temple stood two millennia ago, and that the ramp project could be a cover for digs underneath the compound. When Israel opened access to a tunnel that runs underneath Muslim houses alongside the compound's western wall in 1996, the resulting riots killed 69 Palestinians and 16 Israelis.

Mr Salah saw his chance when the Waqf, which had been unhappy about the ramp plans, decided nonetheless to keep its disquiet low-key—possibly, according to a report in the *Haaretz* newspaper, to smooth the return to the al-Aqsa Mosque of a Saladin-era pulpit, which had been damaged in a 1969 fire and sent to Jordan for restoration. Though Mr Salah mustered only a few dozen demonstrators at first, he predictably set off a media frenzy that in turn provoked worsening clashes with the police and an international outcry. Politicians in several Muslim countries called on Israel to stop the construction, with some condemning it as a Zionist plot to destroy Muslim holy sites. Even Malaysia's prime minister called on the UN Security Council to intervene.

Conspiracy theories aside, there is a genuine problem. The new ramp will be more than twice as long as the old one, partly in order to accommodate more police at one time, so they can reach the Haram quickly during disturbances. That goes "well beyond the restoration of the status quo", argued Ir Amim, a group that lobbies for a shared Jewish-Arab Jerusalem, last month. It said that such a move, without the Waqf's agreement, was asking for trouble.

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Lebanon

An unhappy anniversary

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No peaceful end to the increasingly edgy stalemate is in sight

ON FEBRUARY 14th, St Valentine's Day, a vast throng of flag-waving mourners gathered in Beirut's Martyrs' Square for the second anniversary of the assassination of Rafik Hariri. Lebanon has grown used to such giant displays of people power. But this was an angry, defiant show of numbers, unlike the joyous rallies in the months immediately after the killing of Mr Hariri, a five-time prime minister whose death, along with 22 others, in a massive truck bombing set off a political upheaval that many hoped would free this country from meddling neighbours and end its own bitter divisions.

Sadly, those divisions appear more dangerously brittle than at any time since the end of Lebanon's 15-year civil war in 1990, and the meddling of outsiders is just as devilish. A blunt reminder of Lebanon's fragility came a day before the Martyrs' Square memorial, when morning bomb blasts destroyed two buses packed with commuters heading into Beirut from the mostly Christian Metn region, killing three and grievously wounding 20 more.

AP

Waving flags for half the people

There have been other attacks since Mr Hariri's assassination, including murders of four of his allies and pipe-bombs in Christian areas. But this was the first time attackers targeted ordinary civilians, with the apparent aim of maximising the carnage. Tension has been rising since last summer's devastating war with Israel; these latest bombs raise it even higher.

The month of fighting last summer, which left 1,200 Lebanese dead and thousands more homeless, sharply deepened internal schisms. Many Shias, who bore the brunt of destruction, felt the state had abandoned them. Their main party, Hizbullah, asserted that its “divine victory” entitled it to a bigger share of power. But Sunni Muslims, Druze and many Christians accused it of provoking the war in the first place. To prevent another, Hizbullah's heavily-armed “resistance” force should, they insist, fall under state authority, as decreed by UN Security Council resolutions.

The country has since been frozen in a constitutional crisis, with the slim-majority, Western-backed government, made up of Mr Hariri's political heirs, locked in confrontation with the Syrian- and Iranian-backed opposition, a coalition joining Hizbullah with a range of bedfellows, including some Christians, together representing perhaps half of Lebanon's people.

The two groups have clashing visions of national identity. The government champions traditional ideas of Lebanon as politically neutral and business-friendly. Its opponents picture it as a bastion against perceived Western or Israeli attempts at regional domination. In November they pulled five Shia ministers out of the 24-man cabinet, and insisted that their absence rendered it illegitimate, because the constitution says governments should represent all of Lebanon's 18 religious sects.

Those competing visions colour approaches to crucial issues. Among the most contentious is the formation of an international tribunal to try suspects in the attacks against Mr Hariri and his supporters, which have been the subject of a UN investigation. The opposition says that draft statutes for such a tribunal, negotiated between Lebanese and UN legal experts, could trample on Lebanese sovereignty and “politicise” prosecutions so as to punish Syria, the most often accused perpetrator, and perhaps implicate Hizbullah in other crimes.

Dismissing such suspicions as concocted to protect Syria's regime, and demanding closure on murky past violence, the government approved the statutes. But full ratification requires a parliamentary vote and a presidential signature. Parliament's speaker, who must by law be a Shia, has refused to convene the legislature. President Emile Lahoud, a Maronite Christian whose mandate was extended, against constitutional rules and Mr Hariri's objections, when Lebanon was under effective Syrian control, refuses to sign.

So far, numerous attempts at mediation to end the stalemate have failed. Some pinned hopes on outside intervention, particularly on talks between Iran and Saudi Arabia, seen as the region's main Shia and Sunni powers. Formulae have been floated, such as one whereby the opposition would gain a veto-wielding third of cabinet seats in exchange for agreeing to join a committee to review the international tribunal's statutes. Yet, far from cooling their language or seeking areas of common ground, leaders of the opposing groups have clung to fixed positions.

Divisions looked especially stark at the Valentine's Day memorial. A thin line of razor wire separated Mr Hariri's mourners from a tent city erected in December and manned since then by opposition campaigners. Both sides were grateful for the barrier. Twice in the past month, tensions have escalated into deadly violence in Beirut, quelled only by army intervention and sobering memories of the civil war.

Reports of arms stocking and a sharp rise in black market prices for weapons have raised fears that political bosses may not be able to control future outbreaks. “In December we were ankle deep in civil war,” says a seasoned Lebanese journalist. “Now it's up to our knees.”

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Iraq

Who makes the bombs?

Feb 15th 2007 | BAGHDAD AND GHAZALIYA
From The Economist print edition

Whatever their provenance, the bombings never seem to stop

A BOMB-DISPOSAL robot creeps up a flyover in the west Baghdad suburb of Ghazaliya, as American army sappers fiddle with their communications devices. Sporadic gunfire from insurgents down the main road flies harmlessly overhead. On top of the fly-over is a device that is suspected to be an “explosively formed penetrator”, better known as an EFP, a particularly deadly roadside bomb that American officials say is being supplied by Iran to Iraqi insurgents to kill Americans. If so, it would be a first in southern Ghazaliya, since the device has hitherto been exclusively used by Shia militias and this is a Sunni district. At last the robot places its charge. A pillar of black smoke shoots into the sky, followed by a thunderous boom. The device turns out not to be an EFP. The soldiers can go back to worrying about the more normal roadside bombs and sniper attacks that dog their patrols in the district.

The EFPs in Iraq are an advanced version of the shaped-charge technology used against tanks since the second world war. The blast forms a slug of molten metal that can rip through most armoured vehicles—and their occupants. American troops say that in the two years or so in which they have been used in Iraq they have turned up exclusively in strongholds of the Shias' Mahdi Army militia, which is one reason why American analysts say they come from Iran. Moreover, the weapons are built by metal-working equipment that does not, they say, exist in Iraq. And the weapon is thought to have first appeared in the hands of Lebanon's Islamist group, Hizbullah, which Iran arms. The Americans say they have more information on EFPs that they are not releasing, so as to protect their intelligence sources.

Not surprisingly, American claims about new weapons that are supposed to be taken on trust have been greeted with scepticism, recalling Iraq's alleged mobile weapons laboratories that were part of the case for the original invasion. “Such accusations cannot be relied upon or be presented as evidence,” says Iran's foreign-ministry spokesman. “The United States has a long history of fabricating evidence.”

Still, the weapon's appearance only in Shia areas does hint at an Iranian link. The militias are said to use the weapons sparingly, mainly in response to attacks on Shia targets. Iran's motive for supplying the weapons would be to foster client networks among the loose-limbed Mahdi Army, to tie the Americans down and to be able to stir up more violence, should America attack Iran.

Who does most of the killing?

The Americans say that EFPs have killed 170 American, British and coalition troops. Though deadlier than other roadside bombs, they have been fairly seldom used in a war that has killed over 3,100 American troops alone. Sunni insurgents are still a worse threat to the Americans, in part because most of the Mahdi Army seems to be lying low, perhaps on orders from its leader Muqtada al-Sadr. He wants to avoid confrontation with both the government and the Americans during the security crackdown, led by a vaunted “surge” of American troops, just starting in Baghdad.

Sunnis tend to carry out ambushes like the one that damaged an American tank in this Baghdad district a fortnight ago. Based on the depth of the hole and on reports that the district later had its water cut off, American troops concluded that a massive amount of homemade explosive had been stuffed into an underground pipe to avoid leaving any trace on the surface. The trap was baited with the body of a recently shot woman. When the Americans investigated, the charge went off.

Sunni insurgents were almost certainly responsible for co-ordinated explosions that killed at least 80 people in one day this week, including a huge blast during a speech by the prime minister, Nuri al-Maliki, to mark the first anniversary of the bombing of the Golden Mosque in Samarra, one of the Shias' holiest

shrines. It was plainly meant to fan the flames of the sectarian strife that has left at least 35,000 dead since the Samarra outrage. It is also meant to sap public confidence in the American surge now under way.

Many Sunni fighters apparently detest such tactics, since they provoke the wrath of the Shia militias on their communities and on their co-religionists in mixed areas. But the radicals among the Sunni insurgents seem able to impose their agenda on the rest. Meanwhile, the other armed groups in Baghdad use whatever bombs are at their disposal to disrupt American sweeps through their strongholds. It will soon become clear whether the crackdown can stem the sectarian bloodbath. For the time being, the bombs—whether supplied by Iran or others—seem to be going off as often and as lethally as ever.

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Nigeria

A blacklist to bolster democracy

Feb 15th 2007 | LAGOS
From The Economist print edition

Corruption is already at the heart of Nigeria's election campaign

Reuters

THE elections in Nigeria due in April are Africa's most important in a crowded electoral year. Much depends on their outcome: the country's nascent anti-corruption plan, the stability of the continent's most populous country, even a possible resolution of an insurgency in the Niger Delta region that threatens one of the West's most important sources of oil. So it made quite a stir last week when the government's anti-corruption watchdog launched a pre-emptive strike on the electoral process that could affect the course of the campaign—and even the result itself.

The Economic and Financial Crimes Commission (EFCC) has sent letters to all the political parties listing 130 of their candidates who the commission said would soon be charged with corruption. Those named included several gubernatorial and parliamentary candidates. Most strikingly, the list includes Atiku Abubakar, the vice-president (pictured above), one of the two leading opposition candidates running against the ruling party's nominee for the presidency. Though the EFCC's deputy head, Ibrahim Lamorde, stressed that it was not for him to tell the parties how they should act on this knowledge, the independent electoral commission has already advised that those candidates accused of corruption, including Mr Abubakar, should not be able to stand.

The EFCC's intervention is unprecedented, but Mr Lamorde argues that the law gives it “a lot of latitude” to act in any way that it deems necessary to fulfil its mandate of stamping out corruption in Nigeria. But its action has also raised more suspicions that much of its work is in fact partisan, in favour of President Olusegun Obasanjo and his ruling People's Democratic Party (PDP). Mr Obasanjo, who tried and failed to change the constitution last year to stay in power for a third successive term, wants his successor to be Umaru Yar'Adua, a reclusive governor who won the nomination for the PDP in December and who is the younger brother of Mr Obasanjo's deputy during the president's time as a military ruler in the 1970s. In contrast, Mr Obasanjo seems to have been doing everything in his power to try and knock Mr Abubakar out of the race, using the EFCC as his main weapon.

Last year the commission issued a lengthy report on Mr Abubakar's alleged misuse of $125m from a petroleum trust fund. He denies all the charges. A former customs boss, Mr Abubakar takes credit for swaying influential figures across the country to back Mr Obasanjo in the 2003 elections but has subsequently fallen out badly with him. Mr Obasanjo tried to strip Mr Abubakar of the vice-presidency last year after he left the PDP for another party, the Action Congress, an opposition alliance which has absorbed a clutch of other PDP defectors fed up with Mr Obasanjo's authoritarian ways.

Claiming the moral high ground after the commission's blacklist came out, the PDP immediately said that

it would replace all 52 of its candidates on the list, whereas Mr Abubakar dismissed it as “a piece of cheap blackmail”. Unfortunately, many will agree with him. Many politicians feel that Mr Obasanjo's apparently selective use of the commission to wage his party's electoral battles undermines the work of the Nuhu Ribadu, the commission's boss, who has done a lot to go after many of the country's indubitably corrupt politicians, including 31 of Nigeria's 36 sitting governors. Even some in the ruling party wonder why Mr Obasanjo will not allow Mr Abubakar and his relatively weak party to campaign. “It just shows that Obasanjo has a morbid fear of Atiku Abubakar,” says one senior PDP official.

That fear could be justified. If Mr Abubakar, who still enjoys a strong following even in the PDP, were to win the presidential poll, it would be hard to imagine that Mr Obasanjo, stripped of his constitutional immunity, would be left unmolested. The ruling party may have to rig elections more seriously than it did the last time round to get Mr Yar'Adua elected. Muhammadu Buhari, a stern former military ruler who ran for president in 2003, is another opposition front-runner in this year's poll. He said this week that the PDP was already making headway in its race to rig the elections.

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France's presidential election

The lady in red

Feb 15th 2007 | PARIS
From The Economist print edition

The Socialist candidate emerges in her true colours

AFP

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SEGOLENE ROYAL, the French Socialist presidential candidate, is trying to pull off a heroic political trick. She wants to appear to be modern, fresh and different. But she is all the while leaning on old-style socialist policies that have been ditched by almost every other mainstream left-wing party in Europe.

The contradiction was exposed last weekend in a packed conference hall outside Paris, where Ms Royal finally unveiled her “presidential pact”. The event was designed to show that she does politics differently. It was the conclusion of her “listening phase”, during which more than 6,000 town-hall meetings were organised across France and 135,000 contributions posted on her website. She talked in modernising terms, of a new France, of research and of innovation. Instead of citing the great intellectual heroes of the left, she spoke of “Odile, a single mother”, “Karim from Toulon” and Diam's, a French rapper. Rather than lecturing her supporters, she gave them cute, homespun encouragement: “I want for every child born here what I wanted for my own children.”

Yet the 100 detailed policies that Ms Royal unveiled to steer France down this soft-focus path amounted, in the main, to a long wishlist of spending pledges, with little explanation as to how any of them would be paid for. Thus she promised to increase the minimum wage to €1,500 ($1,950) a month, to introduce interest-free loans worth €10,000 for every 18-year-old, to push up unemployment benefits to 90% of previous salary, to raise the lowest pensions by 5%, to renationalise and merge Electricité de France and Gaz de France, to penalise firms that pay dividends rather than reinvest profits, to boost public R&D spending by 10% a year, to cut class sizes in poor areas and much else.

Despite criticising France's “unsustainable” level of public debt, which now stands at some 65% of GDP, Ms Royal said almost nothing about how she would deliver all these promises without worsening the public finances. She talked vaguely of streamlining the bureaucracy. She hinted at the idea of “taxing capital more than work”. But she made no mention at all of her plans for income tax. In short, Ms Royal put together an appealing catalogue of ideas about how to redistribute wealth, but few on how to create it.

What explains this leftward lurch? One explanation is tactical. François Mitterrand, a wily former Socialist president, taught that, in France's two-round system, a presidential candidate must first act to secure the political base, before trying to conquer the centre ground. Many analysts consider that Lionel Jospin, the Socialist contender in 2002, failed to get into the second round because he moved to the centre too soon.

“My programme is not socialist,” he famously declared. Many working-class voters promptly turned to the far left—or to the National Front's Jean-Marie Le Pen, who edged out Mr Jospin.

Having cut her political teeth as an adviser to Mitterrand at the Elysée, Ms Royal seems to be sticking faithfully to her mentor's tactics. In her speech, she asserted herself as the champion of the vulnerable: of “those cries of silent distress, those poor broken lives, those humiliated families, ravaged by poverty and inequity.” She may not have used the word “socialist” in her speech, but her bright red jacket and skirt expressed it just as well.

Another explanation is that Ms Royal is spelling out what she has always believed. She has long stood for an unorthodox blend of social authoritarianism with left-wing economics. This has sometimes led observers to label her Blairite, after Britain's prime minister. On social policy, for instance, she borrows language from the right: the daughter of an army colonel, she talks of discipline, order, family and effort. In her speech, she repeated her idea—which shocked grandees when she suggested it last year—of putting young criminals under military supervision. She has a post-ideological, modern feel about her.

Yet her economic ideas have long placed her on the left. She has criticised the 35-hour working week, for example, not for constraining employers, but for giving them power to extract concessions from employees. She wants to tighten the 35-hour rules to “reduce the negative effect for employees”. This desire to cosset workers is consistent with her record. As president of the Poitou-Charentes region, Ms Royal helps only companies that hire employees on permanent contracts. One campaign adviser, Sophie Bouchet-Petersen, was once a Trotskyite activist. As for Blairism, unlike her centre-right opponent, Nicolas Sarkozy, Ms Royal has never met Tony Blair—and has no plans to.

Will all this be enough to seduce the left? “At last!” cried the front-page headline of *Libération*, a left-leaning newspaper. Her speech “does not guarantee victory,” it said, “but supplies the left, at last, with a real reason to believe in it.” Yet the ordinary voters may not be so sure: according to a survey by BVA, a polling group, 53% did not find her speech convincing. Another opinion poll, taken after Ms Royal had presented her presidential pact, continued to give Mr Sarkozy a narrow lead in a run-off between the pair.

Ms Royal's challenge now is to persuade voters that her programme is credible. This means, first of all, explaining how it will be financed. Judging by the Socialists' legislative manifesto, which contains many but not all of Ms Royal's commitments, they could add a net €31 billion, or 20%, to annual public spending. This week, advisers close to Ms Royal talked of a figure closer to €35 billion. On February 15th it emerged that Ms Royal's chief economic adviser, Eric Besson, had resigned in a row over the cost of her policies.

Yet €35 billion is not so different from the programme of Mr Sarkozy. This week, he conceded that his reforms would leave a €30 billion financing gap, half of it due to promised cuts in taxes and payroll charges. But he asserted that, unlike Ms Royal's spending plans, his package was designed to kickstart the economy, not to be a series of welfare handouts.

With the public finances already stretched, however, even Mr Sarkozy may find that he has little room for manoeuvre. As for Ms Royal, her party's spending plans are predicated on the hopeful assumption of annual GDP growth of 2.5%. Yet both this year and next growth is unlikely to beat 2%. And over the past six years it has averaged a mere 1.6%.

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Poland's government

Turning the loose screw

Feb 15th 2007 | WARSAW
From The Economist print edition

The Polish government flails, creaks and sheds ministers

POLAND'S fractious, pig-headed government has survived for nearly 18 months, against the expectations of most commentators. Lech and Jaroslaw Kaczynski, the identical twins who are respectively president and prime minister, may be disastrous in foreign affairs, but at home life rumbles on fine. Poland took in a record $14.7 billion in foreign investment last year, and the economy is growing at almost 6% a year.

Money is flowing in from Brussels, thanks to Grazyna Gesicka, the diligent regional-affairs minister. The justice system, under a zealot named Zbigniew Ziobro, at least sounds serious about catching the biggest crooks. Communist-era secret-police files—long a source of suspicion and scandal in Poland—are to be opened. The old military intelligence service, the WSI, has been closed down, and a dossier will be published soon showing the reach of its sinister tentacles in business, media and officialdom. The upper reaches of the Kaczynskis' Law and Justice party exude a puritanical rectitude. Its two small coalition partners, once known for their outlandish populism, have been tamed by power.

In the past two weeks, however, the government has shown signs of self-destruction. First to go was Radek Sikorski, the defence minister. He resigned because his military counter-intelligence service was snooping on him, at the behest of its chief, Antoni Macierewicz, a Kaczynski ally. Mr Macierewicz was in charge of liquidating the WSI, but has created a private spy service for the Kaczynskis in its place. The loss of Mr Sikorski, the only minister able to talk sense in English, will merely highlight his ex-colleagues' failings.

Next came the departure of Ludwik Dorn, a deputy prime minister and head of the interior ministry. Known as the “third twin” for his closeness to the Kaczynskis, the brainy and hard-working Mr Dorn wrote a furious open letter to the prime minister, demanding indefinite leave (which was granted). The ostensible reason was a clash with Mr Ziobro.

Two senior foreign-policy advisers have also left. The chaos suggests that the Kaczynskis' grip may be failing. Anybody wanting to survive in the government must be passive, mediocre and loyal, say Poles. One Polish weekly has even compared Jaroslaw Kaczynski to Vladimir Putin, an insult that is both shocking and a shade absurd. Yet Mr Kaczynski's statist, top-down approach and his disregard for the separation of powers do ring some faintly alarming bells.

Even as their enemies become more hysterical, however, the Kaczynskis' supporters are untroubled. Law and Justice is polling a steady 28%, more than it scored in the election of September 2005. It would be rash to write the government off; Jaroslaw Kaczynski has often proved a masterly tactician. Some loyalists even suspect that Mr Dorn's half-resignation is part of a master-plan. Others think the government's troubles are a last-ditch diversion put up by the WSI in its death-throes.

The bigger problem is that, aside from the justice ministry, reform has stalled in Poland. Its public administration remains unwieldy, incompetent and backward. Having booted the old government's cronies out of top jobs in public institutions and state-owned companies, the Kaczynskis have installed their own chums, rather than liberalising and depoliticising. Privatisation has almost stopped. Public purchasing is still deeply corrupt. The Kaczynskis' obsession with the wrongs of the past seems to blind them to what is happening under their noses.

In foreign policy, farce is mixed with tragedy. The Kaczynskis have missed no opportunity to insult Germany—which under Angela Merkel has been trying to be friends. Their conduct of diplomacy is comically incompetent. Any advisers who know anything about abroad attract mistrust, and often dismissal. Hardly any officials are left who understand the European Union, for example, a grave matter with tricky negotiations over the EU constitution about to start again.

Economics attracts similar disdain. The sole goal of economic policy was to remove Leszek Balcerowicz, author of Polish free-market reforms in the 1990s, from the central bank. Poland's most urgent task is to use the boom to cut the budget deficit. Taxes on labour are too high, squeezing wages and increasing the incentive to emigrate. A million-plus Poles have done just that since Poland joined the EU, creating widespread labour shortages.

Vengeful, paranoid, addicted to crises, divided and mostly incompetent, the government survives mainly because the economy is strong and the opposition is feeble. Neither will last for ever.

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Turkey and the Armenians

Genocide wars

Feb 15th 2007 | ANKARA
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A new dispute over the Armenians may sour Turkish-American relations

TURKEY'S fraught relationship with America is heading into a new crisis. This may intensify anti-American feelings among millions of Turks. It could even hurt America's efforts to restore order in Iraq.

The latest spat stems from a bill in America's Congress that would recognise the mass slaughter of Ottoman Armenians in 1915 as the first genocide of the 20th century. The fate of the Armenians remains Turkey's biggest taboo. Denying the official version, which says that Armenians killed Turks in larger numbers than they were killed themselves, has landed scores of Turkish academics and writers, including a Nobel prize-winning author, Orhan Pamuk, in court. Last month, a Turkish-Armenian editor, Hrant Dink, was murdered by an ultra-nationalist teenager, who accused Mr Dink of insulting Turkey.

Successive American administrations have quashed genocide resolutions, arguing that Turkey is too precious an ally to lose. Jewish groups, grateful for Turkey's warm links to Israel, have helped. But the background landscape has changed.

First came the Turkish parliament's refusal in March 2003 to let American troops cross its soil to invade Iraq. Next were the Turkish government's overtures to Iran, Syria and Hamas, which infuriated many in Washington, DC. Throw America's refusal to attack PKK Kurdish guerrillas in northern Iraq, and Turkish threats to do the job themselves, into this “bubbling noxious stew, and we're heading for a perfect storm,” says one administration official.

Nancy Pelosi, the new Democratic speaker of America's House of Representatives, whose Californian constituents include many rich Armenians, refused to meet Turkey's foreign minister, Abdullah Gul, in Washington last week. Mr Gul spoke of “lasting damage” if America joined 18 countries that term the Armenian massacres genocide. American officials agree that vital interests are at stake. Turkey has approved the overflight of 4,900 sorties to Iraq for unspecified “combat support” since the start of the war, as well as the treatment of wounded American soldiers in Turkish hospitals.

Some worry that, if an Armenian-genocide bill is passed, Turkey's mildly Islamist prime minister, Recep Tayyip Erdogan, may end this co-operation, so as to woo nationalist votes in the run-up to Turkey's parliamentary election later this year. Hawks in the opposition are already baying for the expulsion of thousands of illegal migrant workers from Armenia and for a ban on flights between Armenia and Turkey. Fear is mounting among Turkey's own ethnic Armenians: racist graffiti have been scrawled on the walls of their churches, and threatening e-mails continue to flood the offices of *Agos*, the weekly newspaper Mr Dink founded and ran.

What to do? Turkey could start by scrapping article 301 of the penal code, which makes it a crime to “insult Turkishness”. As Mr Dink argued, recognition of Turkey's past misdeeds would best come from unfettered debate among Turks, not from vote-seeking foreign politicians. In a hopeful sign, Mr Gul has complained that “people outside Turkey think you can be thrown into jail for opening your mouth.” Worse, as Mr Dink tragically discovered, you can be killed.

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Kosovo

A violent response

Feb 15th 2007
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Obstacles to Kosovo's independence may yet trigger more violent protests

NOBODY said it would be easy, and taut nerves are starting to fray. On February 10th two Albanians protesting against restrictions on Kosovo's proposed independence were killed, apparently by rubber bullets fired by police in Pristina. Kosovo's interior minister quit; the United Nations police commissioner was fired. The violent protest only confirms warnings from diplomats that any delays in resolving Kosovo's final status could be fatal.

Kosovo is the last issue to be settled after Yugoslavia's collapse in the 1990s. Unlike other parts of the old country that have since won independence, it was a province of Serbia and not one of the Yugoslav Federation's republics. So Serbia can claim that independence for Kosovo violates its territorial integrity. But 90% of Kosovo's 2m people are ethnic Albanians who would rather go back to war than have anything to do with Serbia.

Since 1999 jurisdiction over Kosovo has been in the hands of the UN. On February 2nd Martti Ahtisaari, a former Finnish president asked by the UN to come up with ideas for Kosovo's future, unveiled his plan. Although it does not use the word “independence”, it describes a future independent Kosovo. Serbs and other minorities would have a high level of protection, and a big European Union mission would succeed the present UN one. The NATO-led peacekeeping force would stay.

Since the election on January 21st Serbia has had a caretaker government, but it and the prime minister, Vojislav Kostunica, have rejected the Ahtisaari plan. This week the new parliament did the same. Mr Kostunica's spokesmen try to provoke Western guilt by suggesting that Serbia's loss of Kosovo would be like Czechoslovakia's loss of German-populated Sudetenland to Hitler after Munich in 1938. Yet the EU has endorsed the Ahtisaari plan.

It is not surprising that Kosovo's Serbs are protesting. They hope that Russia, Serbia's friend, will veto the plan when it comes before the UN Security Council, which could begin talking about it in the spring. Harder to explain was the Albanian demonstration, led by Albin Kurti, whose Self-Determination movement wants independence immediately without more talks with Serbia. He argues that plans to give Serbian areas autonomy are akin to partition, which will lead to war.

In the past few months Russia has hardened its public position against Kosovo's independence. “If we imagine a situation in which Kosovo achieves independence,” said Sergei Ivanov, Russia's defence minister, recently, “then other people, people living in regions not recognised, will ask us, ‘are we not as good as them?’”

This is music to Mr Kostunica's ears. But, whatever Russia says, nothing can stop Kosovo's march to independence. The Serbs and the Kosovo Albanians will convene for more fruitless meetings in Vienna next week, after which Mr Ahtisaari will send his plan to the UN. A new Security Council resolution would then be required to replace the current UN mission in Kosovo with an EU-led one.

If Russia refuses to agree, far from saving Kosovo for Serbia, it risks tipping the region back into chaos. Kosovo will declare independence anyway, and many countries (including America and Britain) will recognise it. There will be no extra protection for Serbs, and no follow-on mission to the UN. If so, the two Albanians who died on February 10th may be only the first victims of a new round of violence.

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Italian terrorism

Back to the past

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An apparent revival of 1970s-style terrorism in Italy

GERMANS may see the terrorism of the Red Army Faction in the 1970s as a thing of the past (see article). But Italians found this week that the Red Brigades are very much a present threat. On February 12th police arrested 15 people accused of belonging to the Politico-military Communist Party (PCPM), an organisation descended from the Red Brigades, the Italian terrorist group whose members were killing and kidnapping at the same time as the Baader-Meinhof Gang in Germany. The PCPM is a vestige of the so-called Second Position, one of two movements into which the Red Brigades split in 1984.

Some vestige. The group boasted of an arsenal in Turin stacked with as many as 100 weapons. It had three cells in different parts of northern Italy. Members had done night-time weapons training using live ammunition. And police said they had eavesdropped on conversations about knee-cappings and car bombings between the would-be terrorists.

Their alleged chief ideologist was found living in a mountain village, in an apartment without any heating. Alfredo Davanzo is an urban guerrilla of the old school. In 1982 he was given a ten-year sentence for armed robbery. He absconded to France and smuggled himself back into Italy under a false identity. When confronted by prosecutors this week, he declared himself a “political prisoner”.

Several of his associates are also men in their 50s. But the PCPM is more than just an exercise in Marxist-Leninist nostalgia. The list of those arrested reveals a fairly well-spread age profile. Five were in their 20s. Embarrassingly for Romano Prodi's centre-left coalition, eight of them had infiltrated a trade-union federation linked to the biggest party in government, the ex-communist Democrats of the Left. One was a senior factory representative.

The PCPM had carried out just one attack, in which no one was hurt. But it was feared that worse was to come. The authorities said the next objective was a conservative daily newspaper, *Libero*, and that an operation was in preparation to be mounted before Easter.

Possible future targets included a house owned, but no longer lived in, by the former centre-right prime minister, Silvio Berlusconi. The offices of his Mediaset group were also apparently in the PCPM's sights, as were those of Rupert Murdoch's Sky Italia and of the oil-and-gas group, ENI.

In most of Europe the big fear is of Islamist or al-Qaeda terrorism. This week France arrested 11 Islamist terrorist suspects; and the trial of the 2004 Madrid train bombers got under way. In comparison, the return of the Red Brigades in Italy might seem anachronistic. But Italy is, in many respects, still living in the past. Issues long ago settled elsewhere remain topics of fierce debate.

One example is labour-market reform. The struggle to preserve old-style, fixed employment contracts has been a key element in the survival, or revival, of the Red Brigades. When the militarist wing of the movement returned to kill in 1999 and again in 2002, its victims were Massimo D'Antona and Marco Biagi, both government advisers involved in drafting labour-law reforms.

One noted labour-market expert, Pietro Ichino, observed in an article published this week that his branch of economics has long been a high-risk one in Italy. He listed five earlier attacks in which employment-law reformers were either killed or seriously wounded by far-left terrorists, going all the way back to 1977. The reason he had been asked to comment is that he himself is reckoned to have been earmarked as a possible next victim. Two of the men who were arrested this week were overheard discussing whether he had a police guard. He has.

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German terrorism

Fear of chaos

Feb 15th 2007 | FRANKFURT
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The freeing of a former terrorist unleashes dark memories in Germany

A COURT in Stuttgart this week decided that Brigitte Mohnhaupt should be freed on probation after 24 years in jail. Her release despite a lack of remorse has unleashed a debate that will continue for most of this year, the 30th anniversary of the German “autumn” in 1977. That referred to a period when the Red Army Faction (RAF), which Ms Mohnhaupt led for a time, took the country to the edge of chaos.

Memories of the RAF, also known as the Baader-Meinhof Gang, stir emotions in Germany almost as strongly as those of the Nazi era. The terrorist movement, whose mission was to smash Germany's prosperous post-war society, bombed, kidnapped and shot members of the establishment for over two decades. It disbanded only in 1998.

Many German students of the 1970s and 1980s, now in bourgeois jobs, nursed a quiet admiration for the Baader-Meinhof terrorists at the time. But now Germans see them as the greatest threat to have faced their post-war republic: 1977 alone saw two prominent figures gunned down, a hijacking, the suicide in jail of three leading RAF members and the execution of Hanns-Martin Schleyer, a leading industrialist, after a month in captivity. Bombings and shootings continued into the 1990s; surviving RAF members have been unhelpful in clearing up unsolved crimes.

The Stuttgart court judged that Ms Mohnhaupt, now 57, no longer poses a danger to society. She has renounced violence. Critics say this is not enough: she should show remorse and apologise to the victims' families. Yet as an ordinary criminal, she has served her term and automatically qualifies for release.

This is not yet true of Christian Klar, another RAF member, whose term is not up until January 2009. He has written to Horst Köhler, Germany's president, to ask for earlier clemency. That should require more than the absence of a threat, say some. Heinz-Jürgen Schneider, Mr Klar's lawyer, replies that, after 30 years, an expression of remorse should not be a criterion. Many Nazi criminals, repentant or not, served shorter sentences, he says. Home-grown terrorists, even in their 50s, seem more of a threat than obedient ex-Nazis or former Stasi officers in East Germany, perhaps because their goal was chaos—or because of today's threat from Islamist terrorism.

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Charlemagne

Do as I say—or as I do?

Feb 15th 2007
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The debate over climate change has opened a cultural rift in Europe about politicians' personal behaviour

Peter Schrank

THE European Commission's recent proposals to limit car pollution, and the climate-change debate in general, are revealing a cultural divide in Europe: nothing less than a continental rift over what really constitutes political leadership.

The northern view (for want of a better term that embraces the Swedish and the Dutch) is that the responsibility to set a good example is part of a politician's job. If a new leader decides to change his party's policy to make it greener, as David Cameron did with Britain's Conservatives, it is incumbent on him to be seen going to work on a bicycle (even if a car is following with all his papers). Equally, if the European Commission wants to legislate to reduce car emissions, the commissioner responsible must promise to swap his gas-guzzling Mercedes for a puny Toyota Prius—even if that offends Germany's mighty car lobby. He and the commission must, after all, set an example.

This holds even though the environment commissioner himself is Greek, not Swedish or Dutch. He is supposed to take on the ethical and moral characteristics of his portfolio. He inherits, as it were, the view from Europe's Protestant north that personal behaviour is central to political leadership.

In contrast, the southern (or Mediterranean) view is that public authorities should make and enforce the law, but not otherwise nag on about personal behaviour. Hence, the French left has always rejected criticism of champagne socialism (*gauche-caviar*) on the ground that what matters are the policies, not the lifestyles, of Socialist leaders. Italians similarly shrug off the personal shenanigans of politicians that would surely precipitate resignations in shame north of the Alps.

This is not purely a southern phenomenon. A perfect example came recently from Britain. When the prime minister, Tony Blair, was asked if he was willing to forgo long-haul travel to reduce his carbon footprint, he explicitly contrasted personal behaviour with the framework of public policy, and argued for the supremacy of the latter. “I personally think”, he said, coming over all Mediterranean, “[it is] a bit impractical actually to expect people to do that [ie, give up exotic holidays]. I think that what we need to do is to look at how you make air travel more energy-efficient, how you develop the new fuels that will allow us to burn less energy.” Public authorities should set the rules that shape consumers' choices but, within the law, consumers should be free to do whatever they like. The southern view is less concerned about leading by example.

Well, reply northerners, that's not surprising, for they're all crooks. And it is true that, in general, standards of public probity are higher the farther north you go. Yet it would be wrong to conclude that all politicians would lead by example if only the climate in which they operated were like Sweden's. Different attitudes to personal morality in politics are rooted in social and even religious differences, which may soon become starker.

This debate is really about a broader question: how much do leaders owe voters, beyond their best political judgment? Southerners (and Mr Blair) may answer: not much. Northerners think that leaders must not only say the right things, but do them as well. Or, as a Conservative environmental spokesman put it, speaking of Mr Blair, “he can expect nothing at all from the electorate unless he himself does what he knows is right.”

Climate change is a tough case because it covers two distinct forms of behaviour: legal v illegal (dumping toxic waste, killing whales) and ethical v unethical (not wasting food or energy). Northern Europeans say that this is precisely why the power of example matters, for they see legal and ethical behaviour as part of a continuum. Southerners reply that social pressure is more effective than political pressure at influencing unethical behaviour, and that politicians ought to restrict themselves to law-making, where they will have more impact than they ever could as individual consumers.

For God and morality

These differences also have religious roots that are not easy to pull up. It is no coincidence that a map of north and south follows the contours of Protestant and Catholic Europe. Protestantism's fundamental insight is that the relationship between the believer and God matters above all. Catholics, in contrast, hold that the relationship between believer and church is almost as important, and that the church, with its dogmas and rituals, acts as intermediary between its members and God. There may be a connection between these beliefs and the mindsets which hold, in one part of Europe, that what matters is the personal example of politicians and, in another, that it is the laws they pass.

More immediately, the living memory of dictatorship weighs upon half of Europe and separates it from the rest. The president of the European Commission, José Manuel Barroso, who is Portuguese, talks of chafing as a boy under the Salazar regime, when he was not permitted to buy the records and books he wanted. When countries of “old Europe” were gung-ho to say governments should make a lot of noise about a common European culture, it was the young Hungarian culture minister who said, no, we shouldn't do that: propagating official culture was something the communists did.

Both communist and fascist governments not only passed restrictive laws, but also sought to dictate what was acceptable within the law. The implicit thinking was, to borrow a slogan from T.H.White's novel “The Sword in the Stone”, that “Whatever is Not Forbidden is Compulsory”. People who had to endure claims of this sort might be forgiven for taking a jaundiced view of politicians who nag voters about private behaviour that is perfectly legal.

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Correction: NATO

Feb 15th 2007
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Last week's Charlemagne called Turkey a founding member of NATO in 1949. In fact it joined in 1952.

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Giving to charity

Bring back the Victorians

Feb 15th 2007
From The Economist print edition

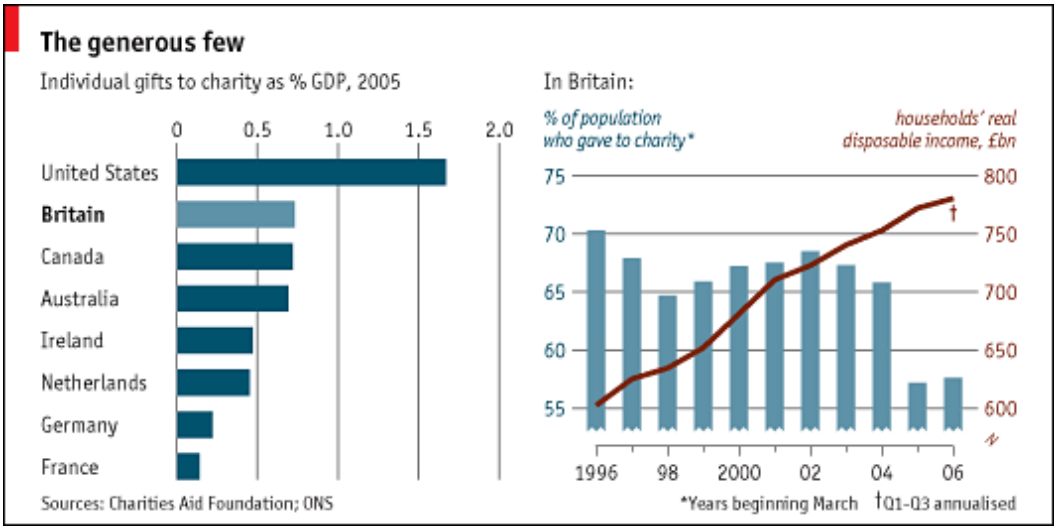
David Simonds

Britons are generous. But given the amount of wealth created over the past 15 years they should be even more so

FOR an era still associated with jingoism, stifling morality laced with hypocrisy and a fondness for stuffing exotic animals, Victorian Britain is a surprisingly fertile source of inspiration for the country's politicians. When pondering how to improve local government they look wistfully at the great Victorian town halls. When trying to get charities to do the work of welfare bureaucracies they remember that Victorian do-gooders managed poorhouses and hospitals. On February 15th the government announced a scheme to match private donations to universities with taxpayers' money, in the hope of stimulating an era of endowments not seen since, well, Victorian industrialists used their fortunes to found new colleges for higher education.

The details of the proposal, which will involve £200m ($390m) of government money over three years, are not so imperial, alas. Each institution's share will be capped, preventing Oxford or Cambridge from scooping the pot. And not all alumni donations will be treated equally: universities which are already good fundraisers (in British terms) will receive less government money for every pound donated, which may sound fair but will also penalise success. This will not make up much of the £10-billion gap between the endowments of Harvard and Cambridge, the richest universities in America and Britain, and is unlikely to inspire British alumni to become as munificent as America's.

When called upon to assist other causes, though, Britons are generous: they come near the top of philanthropic league tables (see chart). America is out in front, but the extra percentage point of its GDP that individuals deposit in rattling tins hardly reflects the much lighter taxes they pay. Most in Europe already show solidarity by financing reasonably comprehensive welfare states; and Britons give more than people in countries with similar overall tax burdens, such as Germany. Medical-research charities consistently come top of the list of favoured causes, along with almost anything to do with animals.



If the question is switched to who gives, rather than how much, however, the picture looks less good. Britain has some philanthropists who are magnificently generous: Sir Tom Hunter, a Scottish entrepreneur who founded a chain of sportswear shops, Robert Edmiston, who made a fortune importing Japanese cars, and Sir Elton John, patron saint of the white piano, all recently parted with over 10% of their recorded wealth, according to the *Sunday Times* rich list. But surveys, which are the only way of collecting numbers in a country where much of the giving does not leave a paper trail with the taxman, show that giving is actually inversely correlated with income. This leads to odd findings, such as that Sunderland, Blackpool and Motherwell, in Britain's relatively straitened north, are the most generous towns in Britain, measured by the proportion of people who give, and Croydon, Ilford and Kingston-upon-Thames in the prosperous south are among the meanest.

“Charities are increasingly reliant on a small core of givers,” says Karl Wilding, of the National Council for Voluntary Organisations (NCVO). His organisation reckons that just over 1.5m people give 42p of every pound that is donated. A separate study, by the Institute for Philanthropy, a lobbying group, shows that the bulk of all giving is done by a discrete group who go to church, identify with one of the main political parties and read a broadsheet (quality) newspaper, all of which have become minority pursuits. Those who do give have to donate more to make up for the decline in their numbers.

This is odd, for Britain has most of the conditions needed to prise open wallets. The first is a tax system that provides incentives to givers. Gift Aid allows charities to claim back the basic rate of tax on donations from taxpayers, and richer taxpayers who give to charities to reclaim the difference between the higher and the basic marginal tax rates. “Payroll giving” allows people to deduct donations from their salaries before tax, so a gift of £100 costs a higher-rate taxpayer £60 and a basic-rate taxpayer £78. Neither of these schemes has had the desired effect. Charities forgo about £700m a year because their donors do not sign up for Gift Aid. And take-up of payroll giving has been poor: more money was raised by raffles last year than was given this way.

Second, Britain has plenty of wealthy potential donors. According to the most recent version of the Boston Consulting Group's annual wealth report, Britain has some 440,000 households with more than $1m in financial assets. America and Japan have more swells, but they also have larger populations. Britain comes third on this international rich list, with 33% more millionaire households than bigger Germany and 69% more than France.

It is hard to know how much of their wealth these super-rich, not all of them British citizens, are giving away. The American-style conspicuous charity that fundraisers for British good causes long for has made a limited appearance. Once a year, for example, Arpad Busson, a French financier based in London, gives a ball at which rich folk outbid each other for donated extravagances. But this has not been enough to transform the overall level of giving, which has just about kept pace with the rate of wealth creation during a 15-year economic boom, but no more than that. The men with bushy whiskers and purposeful stares who founded so many British institutions are not coming back any time soon.

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Britain's children

Full of woe

Feb 15th 2007
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Bottom of the class

Children's well-being, selected countries, rank out of 21

	Overall	Prosperity	Health	Education	Relationships	Behaviour	Contentment
Netherlands	1	10	2	6	3	3	1
Italy	8	14	5	20	1	10	10
Germany	11	13	11	10	13	11	9
France	16	9	7	18	12	14	18
United States	20	17	21	12	20	20	*na*
Britain	21	18	12	17	21	21	20

Source: Unicef

Are they really the rich world's worst-off?

SEX, booze and horrid friends: those three evils dragged Britain's youngsters to the bottom of a “child well-being” index published this week by UNICEF. The UN agency ranked 21 rich countries on everything from babies' birth-weight to how often children chat to their parents. The Netherlands came top, followed by those infernal Scandinavians, who always seem to do well in such contests, and a raft of Catholics. Britain brought up the rear, standing shoulder to shoulder with America.

Young Britons fared badly in each of the six broad categories (see table), worst of all in the sections on their social lives. Just 43% of British children were willing to describe their peers as “kind and helpful”—the lowest of any country (the nicest kids are in Switzerland, where 81% agreed with this). It gets worse: despite finding their peers so vile, British teens were all too willing to jump into bed with them. By the age of 15, 38% had had sex—the highest of the sample. This may be because they were also much the drunkest, and the third-biggest cannabis smokers (just behind the cheery Swiss).

It was not all this bad, but none of it was good: Britain was in the bottom quarter in five of the six main categories. The best thing the government could say was that things might have improved since the data were collected (some of them dated back to 2000).

UNICEF's methods are open to criticism. Poverty was measured mainly in relative terms. Britain, with 16% of children in households where income was less than half the median, was worsted only by America. But this says more about inequality than it does about deprivation: 50% of median family income in 2000 was $7,000 in Hungary, when translated to reflect purchasing-power parity, but $18,000 in Britain. Many might prefer to live on the latter.

Other results were self-assessed, which may have played to Britons' love of complaining. The fact that British children rated their health worse than others did may show greater social insecurity: depressingly, girls worldwide felt far less healthy than boys.

But some findings cannot be dismissed. High sexual activity and infrequent use of condoms produced a teen-pregnancy rate five times that of the Netherlands. When born, British babies were the fifth-skinniest and sixth most likely to die within a year.

This is not the first time Britain has been embarrassed by such a survey. Last year the UNDP's Human Development Index ranked it 18th in the world; a year earlier the Economist Intelligence Unit (EIU) put it in only 29th place for quality of life. The EIU concluded that high levels of social and family breakdown in Britain were offset by high income levels. To many adults, this is a good trade-off. For children, there is no comparison.

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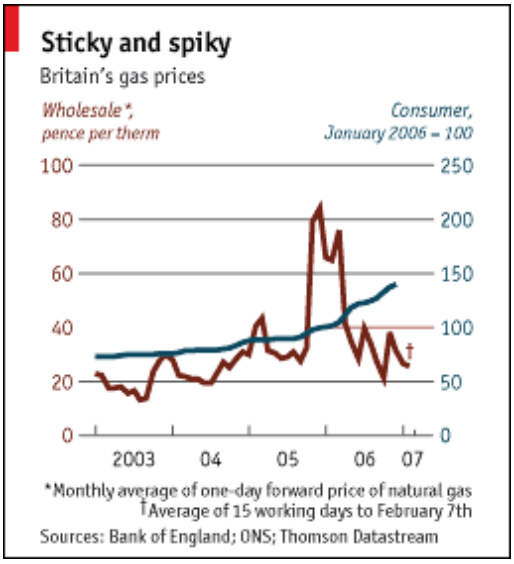
Energy prices

Heat and light

Feb 15th 2007
From The Economist print edition

A liberalised market is put to the test



WHEN British Gas announced on February 8th that it would be cutting its prices for the first time in almost seven years, it sparked a long-overdue price war. Scottish & Southern Energy, a competitor, promised to blow British Gas's offer "out of the water." Other firms including Powergen said they would slash prices too.

This is welcome news for Britons, who have endured constantly rising bills for months. According to Energywatch, a consumer watchdog, gas prices paid by households have risen by 95% since 2003, and the price of electricity (40% of which is gas-generated) by 53%. Domestic gas prices have remained high even as wholesale prices have fallen by over half in the past year (see chart).

It is also good news for beleaguered defenders of Britain's liberalised energy markets. Utilities were being accused of greed by most in the media. Politicians weighed in early and often: Tony Blair called for lower prices and David Cameron, the Tory leader, suggested a competition inquiry. Even Ofgem, the energy industry's regulator, threatened last September that it would "go after" any firms that did not pass wholesale savings on to customers.

Yet Britain's deregulated energy market, in which consumers are free to shop around among a variety of energy providers, is held up by many as a model. This week Europe's energy ministers met in Brussels to discuss, among other things, how to liberalise national markets along British lines. How well is it working?

Very well, officials like to argue, and they sound more convincing since the British Gas announcement. Though they have risen faster of late, prices in Britain are still lower than on the continent, where inefficient and mainly monopolistic firms dictate terms to long-suffering customers. Britain's utilities are at last reducing their prices to compete for customers, who seem keen to shop around: 4m switched suppliers in the first ten months of 2006.

But average prices tell only part of the story; volatility matters too. Last winter spot gas prices quadrupled in four days. When demand shot up in the cold weather, firms could not import enough gas and had almost nowhere to store it anyway. National Grid, which distributes energy, gave warning for the first time that there might not be enough gas to go round and some big industrial users had to cut production. New pipelines, ports and storage are now being built, but it is all a bit late. "The market is doing what markets do—swinging from surplus to shortage and back again," says Jonathan Stern of the Oxford Institute for Energy Studies. He wants the government to be given powers to make firms invest in infrastructure. "That would likely mean higher prices," he admits. "But it's better to have slightly too much capacity when you don't need it than not to have enough when you do."

Allan Asher, a former competition economist and now Energywatch's boss, highlights another problem: liberalisation may not have lowered prices as much as was hoped. Low energy taxes flatter Britain's prices; with taxes stripped out, they are much nearer the European average. Lax regulation has weakened competition. In 1999 over 20 firms were selling energy to consumers; today only six big suppliers remain. And they want to buy up infrastructure to distribute energy—exactly the sort of vertical concentration that liberalisation was designed to dissipate.

Despite such worries there is little appetite for tinkering, especially now that the price cuts have started.

With the shake-up in their own markets ostensibly already under way, Europeans will be watching to see if prices continue to fall. “I wouldn't say that competition has been tried and found wanting,” says Mr Asher. “But it's been tried and found difficult.”

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Inflation and interest rates

Bumpy ride ahead

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From The Economist print edition

Inflation may be falling but another rate increase is still likely

SINCE the Bank of England was freed to set interest rates in May 1997, inflation has been not only exceptionally low but also uncannily stable. That changed last year as annual consumer-price inflation climbed from 1.8% in March to an 11-year high of 3.0% in December.

The resurgence of inflation prompted the bank to raise the base rate by a quarter-point on three occasions in the past six months, lifting it from 4.5% at the start of August to 5.25% in January. The bank still has one more shot to fire, judging by its quarterly *Inflation Report*, published this week. If the cost of money stays at 5.25%, its central projection shows inflation above the government's 2.0% target in two years' time—the period it takes for interest-rate changes to exert their maximum impact on prices. If, on the other hand, the base rate goes up to 5.5%, as financial markets have been expecting, inflation should be bang on target in early 2009.

Like the course of true love, however, the path to the bank's object of desire will be anything but smooth. This was the gist of what Mervyn King, the governor of the Bank of England, had to say when presenting the report on Valentine's Day. He stressed that the outlook for inflation was especially uncertain over the coming year.

Already inflation has surprised the City by falling to 2.7% in January rather than merely to 2.9%, as expected. The sharp decline came mainly from transport costs, thanks to lower petrol prices and air fares. Further big falls lie ahead this year, according to the bank's main forecast, which shows inflation dropping below 2.0% early next year before returning to the target at the start of 2009.

Mr King must write an open explanatory letter to the chancellor of the exchequer if consumer-price inflation diverges from 2.0% by more than a percentage point. He narrowly escaped having to do this when inflation recently reached 3.0%. Now some City economists are beginning to speculate that the decline in inflation may take it below 1.0%, which would also trigger a letter.

The bank's own forecast suggests that the chances of this occurring are pretty low, but it is expecting a remarkable turnaround in inflation nonetheless. The main reason is that household energy costs are about to fall after a year of bumper rises. Gas prices rose by 32% in 2006, the highest rate since the official series began in 1963. Electricity prices rose by 22%, the biggest jump since 1980.

Energy bills now seem certain to come down this year, but the scale of the likely fall is unclear because of the sluggish response of retail gas prices to the wholesale market (see article). The bank's central inflation projection assumes that retail gas and electricity prices will drop by around 20% over the next year, but the decline could be steeper. If, for example, they fell by an additional 10%, it could reduce average inflation further, by between a quarter and a half of a percentage point.

Inflation may be heading down this year, but the bank still sounds concerned about the outlook further ahead. It worries that Britain may be relapsing into an inflationary psychology which would encourage workers to press for higher wages and firms to feel that they can push through price increases. Until it becomes clear that such expectations have been contained, the bank's rate-setters will remain on guard and their overall stance hawkish.

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Tabloid newspapers

Bleeding red-tops

Feb 15th 2007
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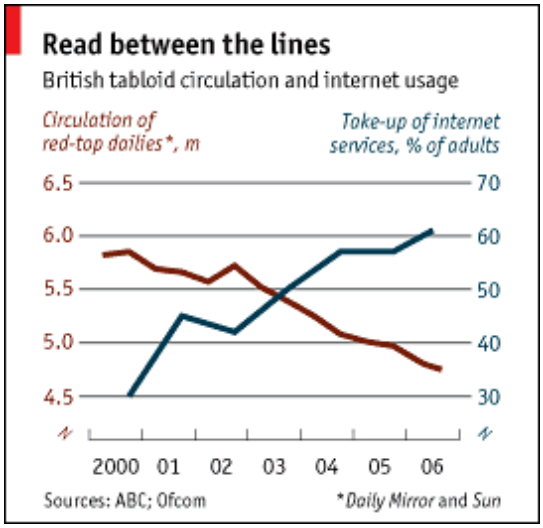
Britain's red-tops are steadily shrinking as the class that sustains them moves on



CLASS-CONSCIOUS Britons have an astonishing array of mechanisms to signal their social status and figure out, discreetly, that of their compatriots. These include the cars they drive, the words they use for meals and furniture, and—not least—the papers they read.

The person hiding behind a *Financial Times* on the tube is likely to be a man of the upper-middle or middle classes and under the age of 45, according to the National Readership Survey produced by pollsters at Ipsos MORI. Next to him the commuter perusing the bare breasts jutting from page three of the *Sun* is almost certainly working-class, ten years younger, and, as the circulation of Britain's "red-top" tabloids falls, an ever rarer find.

Sales of the *Sun*, Britain's most widely read newspaper, fell by 3% in the 12 months to January, according to ABC, which audits the circulation of newspapers and magazines. Copies sold by its smaller rival, the *Mirror*, declined by 6%.

At first glance these numbers seem old-hat, for newspaper sales have been falling for four decades. In part this reflects the increasing importance of television: seven out of ten British homes now get dozens of channels, usually by cable or satellite. Another reason is the internet: three-fifths of adults are now online regularly, compared with a third six years ago. Both make available at no extra charge much of the news and gossip that people used to pay for.

But red-tops, unlike most "quality" newspapers, are shedding readers at an accelerating pace. Paul Zwillenberg, of OC&C Strategy Consultants, which advises media firms, reckons that whereas daily red-top sales slipped an average of 2.1% a year between 1984 and 2000, the slide accelerated to 2.6% a year thereafter. The circulation of papers such as the *Times* and the *Guardian*, by contrast, has declined only slightly over the past six years; and the *Independent* and most weekly news magazines, including this one, are selling more copies than they were half a decade ago.

One reason why quality papers look healthier than the red-tops is that many middle-class folk warmed to the internet early, so their papers felt the pain years ago. In any case such readers are more likely than others to seek their news from many sources, both online and in print. And red-tops have been especially hard hit by the rise of free papers in city centres.

Henrik Ornebring, a fellow at the Reuters Institute at Oxford University, suggests another reason why downmarket tabloids are proving less resilient. Middle-class readers like their newspapers filled with analysis and opinion (especially if they agree with it), but the content that downmarket readers look for is much more fungible. Were one to switch the opinion pages of the *Guardian*, a left-of-centre paper, with those of the more conservative *Telegraph* there would be an uproar. But exchanging two of this week's stories in the *Sun* and the *Daily Star*—both report that British breasts are Europe's biggest—would probably go unnoticed.

Those in search mainly of naked girls, football reports or celebrity scandal are also likely to want more of it faster than the red-tops provide. Such readers are decamping not only to the internet (and to mobile-phone messaging for sports scores) but also to a new breed of weekly magazines. Scantily clad women take up little more than 1% of the average red-top paper, but a quarter of weekly magazines such as *Nuts*

and *Zoo.* Similarly, 43% of the content of magazines such as *Heat* that are aimed at young women consists of gossip. The “lad mags” are beginning to lose readers, but not back to the red-tops.

If Britain's downmarket tabloids want to hang on to their readers, their best bet is to stop patronising them. “They've been providing more and more sensational stories which readers lap up on the day but which turn them off papers in the longer term,” says Jim Chisholm, of iMedia, a consultancy. Instead of laying on still more breasts, they might concentrate on developing distinctive journalism on popular themes that readers cannot find elsewhere. Similar tactics have helped to stanch the flow of readers from quality papers. To argue that red-tops cannot do likewise demeans their readers.

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Avian flu

The Hungarian connection

Feb 15th 2007
From The Economist print edition

Foreign bans and shaky consumer confidence are the most worrying effects

Get article background

A WEEK after the discovery of Britain's first big outbreak of H5N1 avian flu, on a farm in Suffolk, turkeys are still in the news. A new hypothesis for how the disease came to Britain has appeared, displacing the theory that an infected wild bird got inside one of the turkey sheds. Bernard Matthews, the poultry firm that owns the Suffolk farm, also has operations in Hungary, which suffered an outbreak of avian flu in late January. A shipment of Hungarian meat was brought to the Suffolk farm a few days before turkeys there began to drop.

That theory received a big boost when tests on the British virus showed it to be virtually identical to the strain that had caused the Hungarian outbreak. Infection from Hungary, according to Sir David King, the government's chief scientist, is “the most likely scenario”. Miklos Suth, Hungary's chief vet, dismisses the idea, pointing out that the poultry came from outside the restricted zone. But the birds were slaughtered, it seems, at an abattoir where poultry from the affected zone were also killed. Epidemiological investigations are notoriously tricky and it is possible that the full story will never be known.

Much of the debate, meanwhile, has focused on the implications for public health. The Food Standards Agency says that some infected meat may have entered the food chain. A merrily scaremongering press has been conjuring up apocalyptic visions of bird-flu doctors with military escorts choosing who would live and who would die in the event that the disease managed to jump the species barrier.

It is true that, were the H5N1 virus to mutate into a form that could easily infect humans, the disease could trigger a global health crisis. But for now the main risks remain economic. The string of tardy revelations about the Hungarian connection—by Bernard Matthews and the government—has damaged consumer confidence, which was at first resilient. Many supermarkets are now reporting a dip in poultry sales. Restrictions on poultry exports are growing too: the list of countries that shun British birds in one form or another now runs to some 25.

With these economic ramifications in mind, the government has moved quickly to let Bernard Matthews resume commercial operations, slaughtering—but not yet rearing—birds on its Suffolk farm. That decision has proved controversial with many local farmers. Bernard Matthews was given a special dispensation to reopen but none of the smaller farmers in the exclusion zone has been similarly blessed.

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English classes for immigrants

Tongue-tied newcomers

Feb 15th 2007
From The Economist print edition

The government keeps telling immigrants to learn English but won't pay for it

THE English are notoriously reluctant to study other people's languages but increasingly anxious that immigrants should learn theirs. This week the government proclaimed that from April the 40,000 job-seekers who say their poor grasp of English prevents them from finding work will have to show they are trying to learn it or have their benefits docked.

This followed months of rumbling about the need for better integration of ethnic minorities, especially Muslims, who, the government worries, are not embracing British ways. Since 2005 would-be citizens have had to pass a test in English about life in Britain, which from April will also be compulsory for those seeking merely to settle. In his leadership pitch at the Labour Party conference in September, Gordon Brown, the chancellor of the exchequer, banged on about Britishness and declared: “It is right that people who come to...this country to stay learn English.”

Quite right. Life is easier and work more profitable when you speak the local language. Immigrants who are fluent in English are more than 20% likelier to get jobs than those who are not and on average earn almost 20% more, according to a recent report by NIACE, an adult-education charity. Given the pay-off, why aren't immigrants learning English?

Actually, they are. The number of students enrolled on courses in “English for speakers of other languages” (ESOL) more than trebled in the four years to July 2005, to nearly half a million. Even these impressive numbers do not tell the whole story: colleges in some parts of the country have waiting lists of up to two years and find students queuing at dawn to sign up. Tower Hamlets College in east London only accepts students who can manage 80% attendance, yet its waiting list is often more than a year. In 2002 the Department for Work and Pensions asked refugees what help they most wanted in order to find jobs. English lessons came top.

Demand is racing ahead of supply: if there is an under-achiever in the class, it is the government. Funding has increased substantially but has not kept pace: in the year to July 2005 it amounted to £577 per student per year, compared with £648 in 2000-01. The result, says NIACE, is patchy teaching standards, especially in the new landing areas for refugees and eastern European migrants, which are not used to large-scale immigration. Instead of forking out still more money, the government has decided to introduce course fees in order to “manage demand more effectively”—ie, put off some students. From September everyone except the unemployed and those on income support will have to pay for lessons. Colleges are still doing their sums, but most reckon the average part-time learner will face a yearly bill of some £300.

The government says that firms which employ migrant workers should contribute, but it has not come up with a way of making them. (“I wouldn't hold out a lot of hope for gangmasters signing their workers up for ESOL classes,” says one teacher.) And among the victims of “demand management” could be other people the government is especially keen to reach.

Shamim Nizami, an ESOL lecturer at Bradford College, has in her class some of the “imported brides” from south Asia that the government fears are most isolated. Many are not registered as unemployed or in receipt of benefits so will soon have to ask their in-laws to pay. Without English they cannot attend parents' evenings at school, visit the doctor unaccompanied or integrate socially in a hundred ways. Spouses are already ineligible for free lessons until they have lived in Britain for a year, a handicap for those who are most in need of settling in and infuriating when they are told they must try harder to mix.

The government pleads poverty. Since 2001 ESOL has grabbed more than half of the “Skills for Life” budget, squeezing the literacy and numeracy courses, aimed mainly at British-born adults, which produce more qualifications that count towards official targets. But while ESOL funding is reined in, ever more

government money is spent on translating: in December the BBC totted up the figures and found they came to some £100m a year. The court system's translation budget had trebled in five years. One NHS trust ran anti-smoking sessions in Turkish. Whatever happened to teaching a man to fish?

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Bagehot

People power

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Steve OBrien

Why an online petition has caused trouble for the government on two fronts

IN POLITICS, as in life, good intentions are not enough. In pursuit of two perfectly decent ideas—the need to tackle traffic congestion by some form of road pricing and the desire to make itself appear more open to consultation—the government has created nothing but trouble for itself.

The immediate cause is an “e-petition” on the 10 Downing Street website that by midweek had attracted nearly 1.5m signatures. The petition demands that the government abandon proposals to establish a national vehicle-tracking system that would be used to tax motorists every time they drove their cars. Through exaggeration and distortion the petition has rather brilliantly united the motoring, anti-tax and civil-liberties lobbies.

When the deadline for signing the petition is reached on February 20th, it will be politely rejected—Tony Blair has said he will send an e-mail to every signatory—and the newspapers which helped drum up support for it will rant about the government's arrogant disdain for public opinion. But two good causes, doing something to unclog Britain's overcrowded roads and experimenting with new forms of participatory democracy, will both have been set back unless some lessons are learned.

First, the government needs to acknowledge that its attempts to sell road pricing have been pretty woeful. Its first mistake was to attach too much significance to Ken Livingstone's introduction of congestion charging in part of central London. Having implemented the scheme in the teeth of local opposition and government scepticism, Mr Livingstone secured his re-election as London's mayor when traffic initially flowed better and bus services were improved with the money raised. Mr Blair, no mean Livingstone-hater in the past, was dewy-eyed with admiration.

Unfortunately, on the eve of the charging zone's extension westward, doubts about how much it has achieved are growing. This week Transport for London, the mayor's own transport body, was forced to admit that congestion is only 8% lower than it was before the charge was introduced. TfL thinks the extension is likely to make things even worse because of residents' discounts within the expanded zone. The government also conveniently forgot that Londoners rely far less on their cars than people elsewhere in the country and those who use them regularly tend to be richer.

Among the government's other mistakes was failing to counter the impression that it wanted to set up a national surveillance network to monitor every driver and that many people who depended on their cars

would literally be taxed out of them. Nor has the disappearance into the Treasury maw of the revenues from this month's doubling of air-passenger duty helped. It only confirmed suspicions that the government would use any excuse to dig its hand deeper into the public's wallet.

The attempt to portray itself as a “listening” government has been equally inept. Much of the Downing Street website is informative and serious. But online petitions of the kind the site has invited since last November are neither. Indeed, petitions are one of the worst possible ways of drawing the public into the political process. By their nature, they encourage single-issue campaigners and a crudely binary approach to complex issues which require the reconciliation of contradictory interests.

The road-pricing petition tells us that many people want neither to pay more for driving nor to feel they are being spied on when they use their cars, and that lots of them are willing to spend one minute protesting about it. What the petition doesn't do is provide any clue as to how journey times should be speeded up to the benefit of both individuals and the economy.

The problem is that although everyone seems to agree there is a “crisis of disengagement” from politics—as shown by low voter turnout and fading identification with political parties—convincing solutions are in short supply. The government is sponsoring “Digital Dialogues”, an investigation by the independent Hansard Society into ways in which the internet can be used to consult voters and “internal stakeholders” over aspects of government policy. Last year, however, a report on declining political engagement, dubbed the Power inquiry, recognised that “popular cynicism towards public consultation is very strong”, though it gamely argued that all public bodies should nonetheless consult the public in their decision-making,

One possible answer is to cultivate more direct forms of participation. The Power inquiry teamed up with a London council to give local residents a direct role in setting the following year's budget. The “open-budget” assembly in Harrow attracted about 300 participants to six hours of deliberation on a Sunday afternoon. Nearly everyone involved thought the event a success, but the kind of people who will give up part of their weekend to debating how much money should be spent on collecting rubbish are probably pretty engaged in the first place.

Local will do for now

Another recommendation by the Power inquiry, taken up this week by a rightish think-tank, the Centre for Policy Studies, is that ordinary Britons should have the same right to initiate legislation through referendums as citizens in 24 American states and many European countries, most famously Switzerland. David Cameron, the Tory leader, is said to be interested and the chancellor, Gordon Brown, who wants to show he is not the top-down micro-manager depicted by his enemies, could be too.

Whether such alien notions can be transplanted to Britain is questionable. But what is most wrong with the British version of representative democracy is its extreme over-centralisation. What other country would even be thinking about a “national” road-pricing scheme? Never mind direct democracy: most Britons would probably be happy with just a little more democracy that was genuinely local.

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Russia and America

Not a cold war, but a cold tiff

Feb 15th 2007 | MOSCOW
From The Economist print edition

Vladimir Putin's recent diatribe against America reflects the deeply resentful attitude the former superpower has towards the remaining one

AP

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ONE way to understand Russia's bloody history is to see it as an oscillating tussle between forces bent on emulating the West and those resolved to shun it. For much of the 20th century, the chief object of Russian admiration and revulsion has been the United States—the country that, with its combinations of fissiparous diversity and fierce patriotism, insularity and messianic sense of destiny, Russia arguably most resembles. After the rushed, giddy embrace of American ideas in the 1990s, the anti-Western impulse has again become increasingly conspicuous during the presidency of Vladimir Putin. Judging by his speech at a conference in Munich on February 10th, the ascendancy of this old reflex is now complete.

Addressing Robert Gates, America's defence secretary, John McCain, a Republican senator, Germany's Chancellor Angela Merkel and other bigwigs, Mr Putin gave a blunt précis of Russian grievances with America. “Unilateral and frequently illegitimate actions,” he said, had “caused new human tragedies and created new centres of tension.” The world, Mr Putin added, was witnessing “an almost uncontained hyper use of force”, which was plunging it into “an abyss of permanent conflicts”. Lest anyone mistake him, he specified that “the United States has overstepped its national borders in every way,” exhibiting “a greater and greater disdain” for international law. This was fuelling an arms race and driving some countries to acquire weapons of mass destruction.

None of this was strictly new: Mr Putin and other Russian officials have made all these points before. But the tone, forum and concentration of his criticism distinguished this outburst. Other denunciations of America have been more periphrastic (“comrade wolf knows who to eat,” Mr Putin said obliquely last year, “and he eats without listening to others”). He probably meant to cause a stir in Munich even before Mr Gates last week listed Russia's “uncertain path” among America's military concerns. And he succeeded.

Two questions stand out amid the fury and incredulity that Mr Putin's speech provoked. First, how did it come to this? After he and George Bush met for the first time, in 2001—when both were greenhorn leaders with questionable mandates—Mr Bush famously said he had looked into his counterpart's soul, and liked what he saw. Mr Putin's solidarity after the September 11th terrorist attacks seemed to augur a new era in Russian-American relations. Less than six years on, they seem to have reached a post-Soviet nadir. The second question is, how much deeper might they sink?

In their early enthusiasm for Mr Putin, some diplomats clearly made a classic error in Western thinking about Russian leaders: wishful thinking. What some saw as a strategic choice for partnership with America seems, for the Kremlin, to have been instead a tactical alliance. In return for what the Russians saw as concessions—tolerating America's military presence in Central Asia; swallowing NATO's expansion to Russia's Baltic border—the Russians expected something back. Instead, they feel, there was mounting criticism of their domestic affairs, disdain for their views on Iraq and resistance to the international ambitions of Russian companies.

Mr Putin's assault, from 2003, on the Yukos oil company and its boss, Mikhail Khodorkovsky, helped to bring these resentments to the surface. But the most important watershed came in autumn 2004. After the Beslan school massacre, something in Mr Putin seemed to snap; he denounced unnamed foreign powers that, he said, were intent on weakening Russia. Then came the Kremlin's cack-handed efforts to intervene in Ukraine's presidential election. The Russians saw their defeat in Ukraine as evidence of perfidious American meddling in Russia's sphere of influence. For the Americans, the debacle showed that a truth plain in Mr Putin's domestic policies—that he was not a real democrat—would affect his country's foreign behaviour too.

Russia's domestic politics explain Mr Putin's Munich performance as much as do his foreign frustrations. As the president nears the end of his constitutional term, he is determined—says Fyodor Lukyanov of *Russia in Global Affairs*, a journal—to prove that on his watch “Russia has returned to the global arena.” The presidential handover in 2008 will be a risky period in the highly personalised system of government Mr Putin has created: the old foreign bogeyman may help.

But the main impact of the big domestic changes under Mr Putin—power corralled in the Kremlin, and an oil-fuelled economic revival—has been to engender a self-confidence unprecedented since Soviet times. Parliament, regional leaders, the media and once-uppity tycoons have all been domesticated (Mr Putin evidently did not see the irony of his complaint in Munich about “a world in which there is one master, one sovereign”). Much of Russia's foreign debt has been repaid. There is now no reason—no external obligations, no internal constraint—to stop him speaking as he pleases. That was clear at last year's G8 summit in St Petersburg, when Mr Putin mocked Mr Bush over Iraq, and Tony Blair over a corruption scandal.

Thus emboldened, the Kremlin is now as eager to be feared as liked. It feels it can strong-arm foreign energy companies, and object anew to things which Russia seemed to have accepted, like America's missile-defence plans. Even while asserting that their own strategic reach will not be diminished, Mr Putin and others have denounced the possible arrival of missile-defence kit in Poland and the Czech Republic. They also feel that the power Russia has recovered has to be demonstrated to be real—and preferably demonstrated to the diminution of America's. That partly explains Russia's behaviour in the Middle East, which Mr Putin visited this week, and where he again talked mischievously about setting up a “gas OPEC”. In Munich he aired another telling theory, heard about the Kremlin recently: Russia did not lose the cold war but voluntarily ended it.

These atavistic urges, misunderstandings and, in some cases (such as NATO expansion) legitimately conflicting interests, have created a diplomatic climate in which, when Alexander Litvinenko, a former Russian agent, was murdered in London last year, many people in America and elsewhere found it natural to assume that Mr Putin was the ultimate culprit (an assumption which, in turn, poisoned relations still further). The Munich conference, say some, may become the event that future historians will fix on—like Churchill's “iron curtain” speech in Fulton, Missouri, in 1946—as the moment when pre-existing tensions became explicit. Both Mr Putin and his defence minister, Sergei Ivanov, encouraged this epochal thinking by talking about a new, if virtual, “Berlin Wall”. *Kommersant*, a Russian paper, observed that Mr Putin had only lacked a shoe, like the one once banged by Nikita Khrushchev at the United Nations.

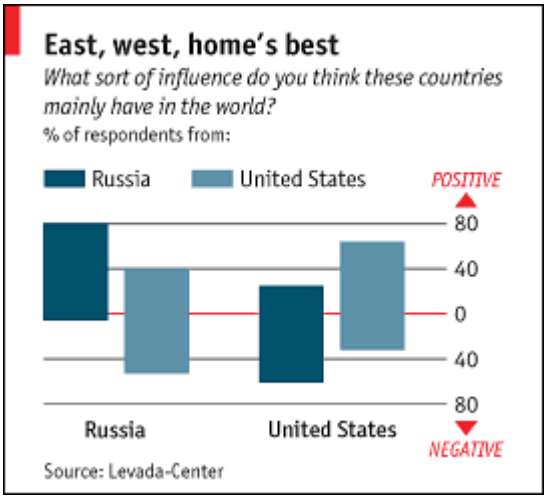
AP

A hard crossing: the land route (via the Bering Strait) from Russia to America

The Fulton analogy goes too far. For all its “petro-arrogance”, as Dmitri Simes of the Nixon Center in Washington, DC, puts it, Mr Putin's Russia is not the Soviet Union. It has a permanent seat on the United Nations Security Council, which it can use to thwart American policy towards Iran and Kosovo (which may yet provide a pretext for even nastier Russian meddling in South Ossetia and Abkhazia, breakaway regions of Georgia). It has the biggest hydrocarbon reserves in the world, which can be used as “tools of intimidation and blackmail”, as Dick Cheney alleged in an aggressive speech in Vilnius in May 2006, to which Mr Putin's Munich address was in part a riposte. It has lots of nuclear arms to underpin its self-esteem. But it does not have the conventional forces, nor the economic and ideological resources to compete with America globally as it did in the cold war. Rather than declaring another one, says Dmitri Trenin of the Carnegie Moscow Centre, Mr Putin was staking a claim to be the leader of the global opposition—calculating that Iraq made this a propitious time to announce Russia's candidacy.

For the Americans, all that is troubling, but less than catastrophic. There are broadly two schools of thought on how to deal with Mr Putin's Russia, in Congress and within the administration. One wants to confront and even punish the Kremlin, for example by throwing Russia out of the G8; the other, to which Mr Bush mostly seems to belong, wants to remain congenial to enable co-operation in Iran and elsewhere. (In his most emollient Munich passage, Mr Putin recalled their early affinity by calling Mr Bush “my friend” and “a decent man”.) America's reaction to Russia's presidential election—set to be more a coronation than a free choice—will be the litmus test of its Russia policy. Yet the bottom line is that Russia looms much smaller in Mr Bush's mind than vice versa.

But there are two reasons to fear that the relationship is more likely to get worse than recover. One is what is sometimes called the “values gap”. Mr Putin exposed this gap in Munich, when he aired some very Russian neuroses along with his standard critique of American power. He said the OSCE—an international body that has mildly and correctly criticised rigged elections in some ex-Soviet states—was becoming “a vulgar instrument designed to promote the foreign-policy interests of one or a group of countries.” He again insisted that non-governmental organisations active in Russia but funded from abroad were the tools of foreign governments. In an interview this week with al-Jazeera, Mr Putin made plain the basic conviction underlying these moans: that all American talk about Russia's democratic failings was so much realpolitik. Critics of Russia's human-rights record, he said, “are using this kind of demagogy as a means to pursue their own foreign-policy goals in Russia.”



The other worry is that this gap applies not only to Mr Putin and the other ex-KGB types who make up much of his entourage, but to many ordinary Russians too. General Russian attitudes to America are hardening, and suspicion of American motives spreading, even as American-style comforts and living standards become more accessible. Alexei Levinson, a Russian sociologist, says many Russians exhibit a “deep ambivalence” towards America, which has persisted after communism's collapse.

In fact, admiration and revulsion have always co-existed, albeit in varying proportions: Stalin himself recommended “the combination of Russian revolutionary élan with American efficiency.” In a country

whose media is as tamed as Russia's, public opinion is largely formed by government propaganda. But there is evidence—on the streets, as well as in opinion polls—that the crescent nationalism of Mr Putin's foreign policy is catering to the Russian mood as much as shaping it.

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Immunisation and the market

New vaccines for old killers

Feb 15th 2007
From The Economist print edition

Eradicating killer diseases is a financial challenge as well as a moral one

IMAGINE how it is for a mother to watch her child die from a disease which the rich world successfully tackled half a century ago. That was the war-cry issued this month by Queen Rania of Jordan as part of an effort to marshal public and private funds for the fight against diseases that decimate youngsters in avoidable ways. Avoidable, that is, if human ingenuity was rationally used.

The GAVI alliance, of which the queen is a board member, is co-managing a scheme to shorten the time lag between the development of new vaccines and their use in places they are needed. Since poor nations lack the money to compensate drug firms for researching and refining vaccines, it takes 15 to 20 years for a new one to become available at prices affordable in the neediest places. Every year 3m people, half of them children, die of diseases that immunisation could prevent.

AFP

Say aaah and try this one

On February 9th an Italian-led initiative was launched in Rome to tackle the problem through financial engineering. Advance Market Commitments (AMCs) are guarantees, funded by rich nations, to subsidise future purchases in developing countries of a vaccine not yet produced.

Some sceptics have questioned whether this “jerry-rigging” of markets can work. The project has undergone some tinkering and a change of name in an effort to silence the doubters. AMCs are more a sophisticated version of a concept that was known as the Advance Purchase Commitment when first mooted. Whether or not they have satisfied their critics, the project's backers have induced the governments of Italy, Britain, Canada, Norway and Russia, plus the Bill and Melinda Gates Foundation, to help fund a pilot scheme, at an eventual cost of about $1.5 billion. The scheme aims to make available a suitable vaccine for pneumococcal disease, a leading cause of child deaths from pneumonia. Almost a fifth of the 11m children who die each year are killed by pneumonia. The problem is growing because of AIDS; HIV-infected children are up to 40 times more likely to get pneumococcal diseases.

Some sceptics persist. The “pilot” effort, they note, is supposed to test a bold idea: that when donors know what they want to accomplish (a vaccine, say) but don't know how to achieve it, they can promise in advance to pay anybody who gets the right result. But this test, sceptics say, is skewed: a general vaccine for pneumococcal disease exists—made by America's Wyeth Pharmaceuticals—and the only challenge is to tackle some extra strains.

Yet purists may pipe down if the project achieves its aim, to vaccinate 70m to 100m children by 2020. There will be practical difficulties as well as theoretical ones: simple things like keeping vaccines cold in a hot country are a huge problem. Amid the figures cited in Rome, one stood out. It was Ghana's per capita health budget, calculated by the World Bank at $31 per year.

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Electronic protest

Wakey-wakey

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Electronic activism is stirring a lot of citizens into life, whatever leaders think

WHATEVER might unite or divide them, George Bush, Vladimir Putin and the other leaders of the G8 nations will have a fresh topic for small talk, and perhaps serious talk, when they meet in Germany this summer.

They and their underlings will all have been bombarded with e-mails from every country in the world urging them to take faster action over climate change—in a campaign mounted by Avaaz.org, a new web-based protest movement which aspires to be the biggest and broadest such organisation in a crowded field.

The newly founded movement claims to have nearly 1m members already, after pooling resources from three of the world's most successful mobilisers of e-protest: America's Moveon.org (which gave important help to some Democrats in last year's congressional election), Res Publica (an American-based, but globally-minded advocacy movement which often reflects the “religious left”) and Australia's GetUp.org.au, which has used billboards and sky-writing as well as e-mails to campaign for things like refugee rights and the release of an Aussie (arrested in Afghanistan in 2001) from Guantánamo Bay.

As television viewers in Berlin, Delhi, Paris and Washington, DC will have noticed in recent days, Avaaz.org has chosen global warming as the focus of its first big campaign. It has paid for TV advertisements which show George Bush, Vladimir Putin and Jacques Chirac lying fast asleep while evidence of climate change swirls all around them. Viewers are invited to visit the Avaaz site and push the necessary button to give the world leaders a deafening wake-up call.

Ricken Patel, the Canadian-British director of Avaaz—a name which means “voice” in several languages—says one of the intentions is to act as a lightning rod during “moments of global consciousness” such as the aftermath of the 9/11 terrorist attacks or the 2004 tsunami. He cites the battle against AIDS, curbs on landmines and poor-world debt forgiveness as issues on which the thinking of the powerful has already been swayed by grass-roots activism, much of it electronically co-ordinated.

But there are catches, aren't there? As the e-protest movement grows broader, its focus will surely become less sharp. After all, everyone can agree that governments should “do more” about climate change, but when it comes to choosing between specific responses it may be harder to teach the world to click in perfect harmony.

And there is no reason to assume that global e-campaigns will always be mounted in “progressive” causes: what about e-movements for the death penalty, or for more curbs on immigration? But the founders of Avaaz do have at least one argument on their side. Voters' faith in old-fashioned parties is at a low ebb in many democracies. One of the proudest boasts by GetUp, the Australian movement, is that it has more members than any of the country's parties have signed-up members. E-protest may or may not disrupt the sleep patterns of world leaders; but it has already made life more interesting for hundreds of thousands of jaded citizens.

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DaimlerChrysler

Dis-assembly

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From The Economist print edition

If Daimler ditches Chrysler, whither Detroit?

AP

IT WAS supposed to be a “merger of equals”, but has turned out to be just another disastrous car-industry takeover. Since Daimler-Benz swallowed Chrysler in 1998, it has brought the struggling American carmaker to the verge of recovery three times, only to see the patient repeatedly relapse. This time the high price of petrol and raw materials turned the market against the big sport-utility vehicles, minivans and saloons around which Chrysler had built its latest plans for recovery. Although Chrysler had dramatically improved its designs and production lines, it failed to predict the fashions of the forecourt. Now Daimler, chafing at Chrysler's mounting losses and slumping market share, is contemplating divorce.

“We do not exclude any option in order to find the best solution,” said Dieter Zetsche, DaimlerChrysler's boss, on February 14th. He won the top job thanks in part to an earlier and seemingly successful effort to save Chrysler. But for the first time he refused to reiterate past protestations that Chrysler was not for sale.

Despite a healthy performance by the rest of DaimlerChrysler (Mercedes-Benz, trucks, finance and so on), the firm's net earnings in the final quarter of 2006 plunged to a meagre €577m ($724m), fully 40% lower than a year earlier. There was no hiding the blame. The American side of the company had a dire year, with operating losses of $1.4 billion.

Observers had expected 10,000 jobs to be cut in what insiders were calling the “Saint Valentine's Day Massacre”. The true figure turned out to be 13,000, about 16% of the workforce. It included 2,000 salaried employees, mainly from the sprawling headquarters in suburban Detroit. The latest sackings come on top of a previous cull in 2001, when Mr Zetsche cut a third of Chrysler's payroll. This time, Chrysler's assembly line in Newark, Delaware, and several other plants will bear many losses.

By 2009, the car firm expects to have cut production by about 400,000 vehicles a year. Even so, Mr Zetsche insisted the long-term goal is to raise Chrysler's sales, which have fallen obstinately short of the 3m target set in the 2001 turnaround plan. But executives at Chrysler grudgingly acknowledge that in North America they cannot sell many more cars—even smaller ones.

Chery-picking

The big opportunity, according to both Mr Zetsche and Tom LaSorda, Chrysler's boss, lies overseas, where the firm is little more than an asterisk on the sales charts. Its international business grew by 15% last year. But that was from a tiny base. Although vehicles like the big Jeep Grand Cherokee have some appeal in places like China and the Middle East, most foreign buyers are looking for something more modest. Every big car company outside America is betting that sales of small cars in emerging markets will boom. Renault's success with its basic, ultra-cheap Romanian-built Logan saloon has inspired imitations among competitors such as Toyota of Japan and South Korea's Hyundai.

In December Chrysler revealed plans to farm out production of a new model to Chery, an independent Chinese carmaker. That is one of the tactics it plans to employ more widely to help revive its fortunes. At its new Jeep assembly line in Toledo, Ohio, for example, parts of the plant are owned and operated by partners like Hyundai Mobis. Mr LaSorda hopes these deals will allow Chrysler to penetrate new markets faster and more cheaply.

Could something even bigger be in the works? Carlos Ghosn, the chief executive of both Japan's Nissan and France's Renault, is still interested in having an American pillar to his alliance. But he has enough to do, as both companies are on the defensive. There might even be a bid from China. Asian companies would love the quick access to the American market that Chrysler would bring.

Meanwhile Mr LaSorda will have to reduce costs further. He expects to trim $1.5 billion from his bill for raw materials. Chrysler will demand concessions from the UAW union, on health care in particular. Mr LaSorda suggested that one dealer in five could be dropped. Despite all this he accepts Chrysler will make another loss in 2007, although, he hopes, a smaller one.

Chrysler stumbled after having briefly seemed a beacon for beleaguered Detroit, thanks to its flashy 300C sedan, which was touted as a trendsetting design. But then the group ran into what Mr LaSorda called “unexpected headwinds”, including the huge surge in oil prices, which weighed especially heavily on a firm that normally sells roughly two gas-guzzling light trucks for every car.

It did not help that Mercedes never fully integrated with Chrysler, for fear of tainting the cherished German brand. It shared some technology, but did not allow Chrysler to piggy-back on its basic designs. Many ask whether Chrysler might have fared better in different hands.

But Chrysler's managers also made mistakes. They kept production high, even as sales stalled. No one flying into Motown last year could miss the fields of unsold Jeeps and Ram pickups. It was the discounts offered to get this stock moving that caused the financial meltdown.

Mr Zetsche was asked this week whether there were similarities between Daimler's merger with Chrysler and BMW's ill-fated takeover of Britain's Rover Group. He bridled at the suggestion, and still seems reluctant to cut Daimler's losses and sell its ailing acquisition, as BMW eventually did. But he is running out of other paths to take.

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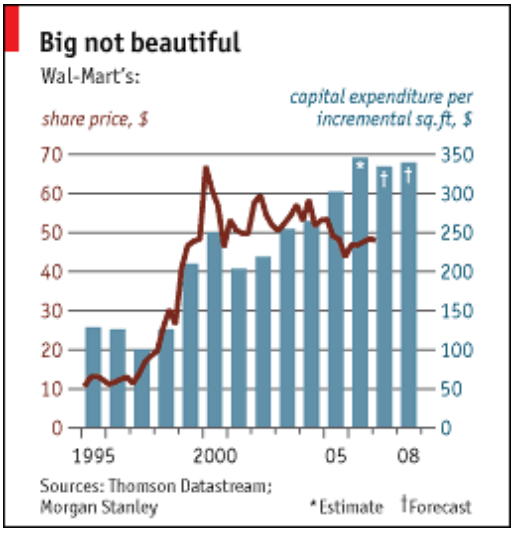
Wal-Mart

The bulldozer of Bentonville slows

Feb 15th 2007 | NEW YORK
From The Economist print edition

Is the world's biggest retailer in trouble?

FOR the first time in its 45-year history Wal-Mart is uncertain what it should be. The company's obsessive focus on low prices created the world's biggest retailer, its largest private employer and one of the most powerful companies in history. But Wal-Mart is not doing so well just now: sales growth is slowing, productivity and profits are falling. The giant retailer is constantly under fire for its pay, health care and treatment of women and for the effect of its "supercentres" on small businesses. Some even scoff at the store's efforts to spruce up its image.



All of this has prompted doubts about the company's strategy. Is the single-minded emphasis on low prices enough? Has the firm's careening growth reached its limits? Have its competitors become leaner than it has? Should Wal-Mart imitate Target, its nearest rival, with its trendier image, smarter shops and more upmarket merchandise?

In 2005 Lee Scott, Wal-Mart's chief executive, embarked on an energetic campaign to revive the company's image. He put Eduardo Castro-Wright, who had transformed Wal-Mart's local subsidiary into Mexico's most popular retailer, in charge of overhauling operations in America. Last year Mr Castro-Wright remodelled 1,300 shops, modified the firm's merchandise and cut prices keenly even by Wal-Mart's standards. But sales did not pick up, even in the second half of the year, when oil prices came down and people stopped fretting about how far they were driving to go shopping.

Recent months have been marked by public-relations mishaps. Wal-Mart first made headlines by sacking Julie Roehm, a marketing executive whose sybaritic tastes were at odds with the company's Spartan corporate culture. In January Mrs Roehm filed a lawsuit against the retailer claiming Wal-Mart had breached her contract and smeared her in the press. Then on February 6th judges in San Francisco approved a class-action lawsuit involving up to 2m past and present Wal-Mart employees. It claims that the company systematically steered women into jobs with little hope of promotion and paid them less than men. Wal-Mart says women are paid fairly and that there are fewer of them in senior positions because they do not apply as often for promotion. If necessary, it says, it will appeal to the Supreme Court.

Investors are unhappy and there is even talk that Mr Scott's job may be in jeopardy. "We had believed that we were farther along the Wal-Mart turnaround timeline," says Adrianne Shapira, an analyst at Goldman Sachs, an American investment bank, who downgraded her advice for investors on Wal-Mart from "buy" to "neutral" at the beginning of the year. One gripe is Wal-Mart's unslakeable thirst for growth. It has 4,022 shops in America. More than half of all Americans live within a ten-minute drive of one of its stores. Each year 93% of American households shop at Wal-Mart at least once. Yet Wal-Mart continues to open stores at the same pace despite this saturation. That leaves new shops cannibalising sales at old ones and falling sales per square foot.

To make matters worse, building new shops is becoming ever more expensive (see chart). Wal-Mart now spends more on each square foot of extra retail space than Target does. Wal-Mart's budget of $18 billion for capital expenditure in 2007 is far too high, says Gregory Melich, an analyst at Morgan Stanley, another American investment bank. He would prefer a sum closer to $10 billion.

Instead of opening new outlets, Mr Melich argues, Wal-Mart should concentrate on sprucing up existing ones. Shops should be cleaner and better lit, queues at cash registers shorter and parking better

organised. Kevin Roberts, boss of Saatchi & Saatchi, an advertising agency, agrees that shopping at Wal-Mart is a “lousy” experience.

This grubbiness is thought to have undermined Wal-Mart's recent effort to mimic Target by launching Metro 7, a line of fashionable women's clothing. Shoppers do not like to buy elegant luxuries in dismal surroundings. But Wal-Mart's plans to prettify its shops have not progressed beyond the construction of an experimental new supercentre in Plano, Texas, which boasts such frills as a sushi bar and wireless internet access.

Could Wal-Mart channel its ambitions into other countries? Non-American sales account for 20% of the company's revenues. Present in 13 countries outside America but big in only three, Wal-Mart is the largest retailer in Mexico and Canada and one of the largest retailers in Britain after its takeover of ASDA, a British supermarket, in 1999. Yet it has struggled elsewhere. It withdrew from South Korea and Germany in the face of strong local rivals, and has failed to make much headway in Central America and China, although it is planning a big push in India.

John Fleming, chief merchandising officer of Wal-Mart, says its “Every Day Low Prices” strategy is still “very, very effective”. That was certainly true in the past: although Target and Wal-Mart were founded in the same year, Wal-Mart is more than six times bigger today. But Mr Fleming also concedes that Wal-Mart needs to turn a trip to one of its shops into a more exciting and pleasant experience. The firm's slogan remains “Always Low Prices. Always.” As the inspiration for the world's biggest retailer, that seems a little bit thin.

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Low-cost airlines

Fare game

Feb 15th 2007
From The Economist print edition

Budget airlines take on long-haul routes

EXACTLY 25 years have passed since the final grounding of Skytrain, Freddie Laker's populist attempt to bring low-cost travel to transatlantic flights. Since then, low-cost carriers have taken a big share of the short- and medium-haul markets in America, Europe and, increasingly, Asia. But few have dared to follow Mr Laker's flightpath to confront the established carriers on scheduled long-haul routes.

Now a group of new low-cost airlines, many of them based in Asia, is targeting the market for long-haul flights—those lasting more than six hours. Oasis Hong Kong Airlines started a daily service between Hong Kong and London in October and is planning to launch flights to America this summer. Prices on Oasis start from £75 ($145) for a one-way trip in economy class and £470 in business. Zoom operates flights from Canada to destinations in Britain and France. AirAsia X, an offshoot of a successful Malaysian low-cost carrier, is to launch cut-price services to Europe and distant parts of Asia in July.

Part of the formula is familiar: flying one type of aircraft to reduce maintenance costs, landing at second-division airports, vigorous outsourcing and so on. But translating the low-cost model to long-haul markets is hard. Airliners are already in the air much of the time, reducing the scope to work them harder. Rules on night flights and rest periods for cabin crew stretch turnaround times. And passengers enduring a 12-hour flight are less willing to skimp on food and legroom.

Setting up a long-haul network also takes tiresome negotiations with aviation authorities in many countries. Oasis's inaugural flight was cancelled because it did not have rights to fly over Russian airspace. Most long-haul routes still rely on connecting traffic to fill seats, whereas low-cost airlines offer point-to-point routes.

High-paying business-class passengers at the front of the aircraft enable established carriers to compete fiercely on bargains at the back. According to Nigel Dennis of the University of Westminster, the best that low-cost airlines can hope for on an all-economy long-haul service is a slender 20% price advantage over the established carriers.

“We ran the numbers for an economy service and they didn't add up,” agrees Stephen Miller, chief executive of Oasis. His answer is to combine a low-cost approach with a continued focus on high-margin activities where there is more fat to trim. Oasis's business-class service accounts for just over one-fifth of seat capacity and 60% of revenues. Cargo, traditionally disregarded by low-cost carriers in short-haul markets, brings in another 15-20%.

Other airlines have stripped economy passengers out of the equation altogether. Silverjet, MAXjet, Eos Airlines and L'Avion, all recent entrants to the transatlantic market, have filled their planes with business-class seats, which they offer at lower prices than established rivals do.

For bigger carriers, the new entrants are not yet much of a threat. The most profitable business-class travellers will be loth to give up either frequent-flyer miles or the convenience of a full timetable. But the cheaper long-haul alternatives inject more urgency into the big carriers' efforts to cut costs. Mr Laker would surely have been pleased by that.

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Class actions

If you can't beat them, join them

Feb 15th 2007
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An infamous legal strategy crosses the Atlantic

THE idea that American-style class actions could soon be coming to Europe makes most European businessmen shudder. They fear the sort of astronomic damages granted to aggrieved consumers and shareholders on the other side of the Atlantic: $145 billion awarded by a Florida jury against five tobacco companies on behalf of all American smokers in 2000 (later overturned); a $1.1 billion settlement against Ahold, a Dutch retailer, in a shareholders' class action in 2005; a $65m settlement last year against IBM in an overtime claim by technical and support staff.

Last week a federal appeals court gave the go-ahead to what could become the biggest class action in history: a gender-discrimination claim against Wal-Mart on behalf of some 2m past and present female employees in America. The claim still has several legal hurdles to cross, but it could end up costing the world's biggest retailer hundreds of millions, if not billions, of dollars, especially if it is extended to include women working for the firm abroad.

But American companies are not the only ones involved. Increasingly, the notoriously long arm of American law is stretching into Europe and beyond. A class action brought by a group of American shareholders of Parmalat, a failed Italian dairy giant, is pending in New York. Earlier this month, a group of investors in BP launched a class action in Alaska against the British petroleum giant over the £70m severance package offered to John Browne, its departing boss. British Airways is also facing a class-action lawsuit in America, and Lufthansa settled one last year.

When class actions were first introduced in America in the mid-1960s, they were seen as means for powerless individuals, whose claims were not worth pursuing separately, to win redress against mighty corporate evil-doers. Sadly, juries took on the task rather too eagerly, awarding not just economic damages, but swingeing punitive ones too. Starting with securities claims, the actions soon spread to mass consumer suits involving tobacco companies, pharmaceutical firms, medical malpractice, employment issues and so on. Nowadays, the winners are not so much the victims of corporate wrongdoing as the lawyers.

Under America's contingency-fee system, designed to help the little guy pursue claims in a country without legal aid, plaintiffs' lawyers normally agree to forgo their fees if the case fails, but claim a big slice—usually around a third, but sometimes up to half—of the total award if they win. In one notorious case in Alabama against the Bank of Boston, the lawyers got $8.5m in fees and the plaintiffs just $8.76 each. With the potential for such rich pickings, abuse has inevitably crept in. Law firms specialising in class actions often seek out any potential case, however weak, advertise for plaintiffs to swell the class's ranks, and initiate the lawsuit themselves. Defendants, anxious to avoid lengthy litigation and negative publicity, often feel obliged to settle, irrespective of the merits of the claim. Nine out of ten class actions never reach the courts.

“We regard this as a form of blackmail,” says Carlos Almaraz of BusinessEurope, a lobbying group for employers. “We definitely would not welcome American-style actions here.” But welcome or not, class-action lawsuits are on their way. In Britain “group actions” have been legal since 2000. One of the biggest, on behalf of some 4,000 people exposed to toxic waste in Côte d'Ivoire last August, was approved by the High Court this month. Trafigura, the Dutch company involved, agreed this week to pay the Ivorian government $198m for a clean-up and inquiry. But this will not affect the damages claim, says Leigh Day, a firm of solicitors that specialises in group actions and is representing the victims.

The Netherlands now allows court-approved settlements for aggrieved classes. Under a 2005 law, one or two plaintiffs pursue their claim through the courts, and their award is then used as the basis for a settlement for the whole group. Germany permits similar representative test cases in securities actions;

the rulings then become binding on the rest of the class. Italy's parliament is considering no fewer than nine bills on class actions. The French government has also tabled a law, though legislation may now have to wait until after parliamentary elections in May.

Supporters of class action point out that Europe's legal systems offer safeguards against the worst American excesses. There are no juries in civil actions in Europe, for example, making absurdly generous awards less likely. Nor are heavy punitive damages normally awarded; the European corporate wrongdoer is more likely to be prosecuted, and punished, in the criminal courts.

American-style contingency fees are also rare. Some countries, like Britain, permit “no win, no fee” arrangements, whereby the plaintiffs' lawyers get nothing if they lose but a fat bonus—up to double their normal hourly rate—if they win. In Germany and Austria lawyers' fees are based on the size of the claim, though not the award. But the mark-up is still nothing like what American lawyers can get. So the incentive to search out weak or even spurious cases is not nearly as great. Above all, Europe's tradition of awarding costs against the losing party acts as a dampener to frivolous claims. In America, by contrast, each side pays its own legal costs.

Peter Watson, a partner with Allen & Overy, a law firm based in London, believes that businesses might cheer the arrival of class actions in Europe if they understood how they differ from the American sort. Indeed, some big firms have lobbied for class-action laws, to enable them to deal with a mass of similar claims in one fell swoop, rather than face thousands of separate lawsuits. In Germany, for example, legislators introduced class actions to help Deutsche Telekom to cope with 2,500-odd lawsuits brought by some 17,000 shareholders seeking damages for the collapse of its share price. Without the new law, litigation would have lasted an estimated 15 years.

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Airbus

Hard landing

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From The Economist print edition

The turbulent aircraft-maker tries to slow its descent

THE company may have had a bumpy ride over the past 12 months, but the latest demonstration flight of Airbus's new A380 was ultra-smooth. The world's biggest commercial jet proved impressively spacious and silent. On board, its chief salesman, John Leahy, insisted the aircraft would be a “game-changer”. It will certainly improve the journeys of passengers in economy cabins, who will enjoy wider seats and more leg-room than on today's wide-bodied aircraft—not to mention a bar or two at the back.

The A380 is two years late and has plunged its maker into loss, but Mr Leahy is confident that he will add 20 more orders this year to the total of 166 received so far. On top of the new airliner's production snags, Airbus must also cope with the weak dollar and Boeing's new-found competitiveness. The American firm has learnt how to outsource much of the work (and sometimes risk) on new aircraft to suppliers in China and Japan. Boeing has also become more efficient by streamlining its final-assembly plant in Seattle.

Airbus's factories are scattered over France, Germany, Spain and Britain, hampering efforts to follow suit. Since it depends heavily on government loans to launch new designs, the politicians have a powerful weapon with which to defend jobs in their country. The subject comes up repeatedly at meetings between French and German officials, when there are usually fine words about sharing the pain. Airbus is due to announce next week a programme to reduce production costs by about €2 billion ($3.5 billion) a year by 2010. Unions fear that there could be a reduction of as many as 10,000 jobs (one-fifth of the workforce), and there have already been threats of strikes in Germany.

The Germans and the British seem most worried about cuts: the former because the A380's problems arose there, and the latter because there is no longer a big British shareholder in Airbus since BAE Systems sold its stake last year. British diplomats warn that there will be strong objections from London if closures and cuts take place in Britain on anything other than transparent commercial grounds. The North Wales factory that makes Airbus wings is rated as the firm's best site, and will retain wing design and final assembly.

But in Toulouse last week Tom Williams, Airbus's head of manufacturing, dropped a hint that the firm's other factory in Britain (at Filton, near Bristol) could lose to French or German plants when Airbus starts making wing panels from composite materials rather than aluminium. He pointed out that other countries had developed the technology and that Britain had failed to invest in it. In a bid to placate Airbus, the British government this week announced it would finance research into new computer-modelling techniques at several British universities, to help Airbus speed up product development by as much as 90%.

Last week the German government organised a special consortium to take up the 7.5% of shares in EADS, Airbus's parent, being sold by DaimlerChrysler. It drummed up two German states with Airbus factories and a state-owned bank, as well as several private ones, to ensure parity between French and German shareholdings in EADS, presumably in an effort to protect as many of Airbus's 29,000 German workers as possible.

Thanks to European labour laws, which make it difficult to sack workers everywhere but Britain, Airbus will shed jobs through early retirement, voluntary redundancies and the like. It will also take a leaf from Boeing's book, by getting suppliers such as Britain's GKN to take over more work now done inside Airbus. Boeing cut the cost of making fuselages by selling a factory in Wichita to a private-equity consortium, which drastically cut costs.

Airbus is already offshoring and outsourcing. It plans to open an assembly line in China within the next two years. It has also announced a joint venture with an Indian engineering and technology company. It

looks as if the only way Europe's proud aerospace champion can survive is by matching Boeing's increasingly global game.

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Indian newspapers

Let 1,000 titles bloom

Feb 15th 2007 | DELHI
From The Economist print edition

Which will be the first to wither?

ALMOST every day Raju Narisetti, managing editor of *Mint*, a business newspaper launched in Mumbai and Delhi this month, gets an e-mail from a Western journalist looking for a job in India. The interest is unsurprising: newspapers are struggling in Europe and America, but in India, as in China, they are booming. *Mint* is one of several newcomers. Delhi's first tabloid, *Metro Now*, was launched on February 5th. A second, owned by *India Today*, a weekly news magazine, is due to appear later this year.

India has some 300 big newspapers, with a combined circulation of 157m last year—a rise of 12.9% on 2005. Only a few dozen of these rags, with a circulation of 35m, are in English, but they get about half of the advertising cash. The economy has grown by 8% a year over the past four years and growth has been particularly strong among traditional advertisers, such as carmakers, property developers and airlines.

The future looks bright. At best, a mere 300m of the country's billion-odd people are middle-class; only 60% are literate. As the untutored crowds learn to read, they are likely to reach for a newspaper. Internet access, although spreading, is enjoyed by only 1.2% of Indians over the age of 12. According to M.J. Akbar, editor-in-chief of the *Asian Age*, “The language of aspiration is English and the medium of aspiration is the newspaper, so an English newspaper is almost a ladder on which this class seeks to rise.”

This year, for the first time in a decade, newspapers and magazines increased their share of advertising revenues, to 47%, despite the continuing proliferation of television channels. That success was partly a product of increased competition between the main titles. In recent years, led by the *Times of India*, the biggest English dailies in each region have gone national, breaking a gentleman's agreement to avoid each other's patches. For example, the *Deccan Chronicle*, traditionally of Hyderabad, has won a circulation of nearly 200,000 in Chennai, traditional home of the *Hindu*, in just 18 months.

Competition is forcing once-staid publications to spice up their content. Mumbai's *Midday* tabloid has introduced a bikini-clad version of Britain's topless “page-three girls”, called the “*Midday* mate”. Most broadsheets offer similar enticements in colourful “entertainment” sections full of Bollywood stars.

But the most common competitive tactic is to offer huge discounts to subscribers. Before its launch *Mint* had sold 55,000 one-year subscriptions for just 299 rupees ($6.70) apiece. That works out at less than two cents per issue, although the paper, ink and printing alone cost 11.5 cents. In response, the *Times of India*, which also owns the *Economic Times*, offered both papers for little more than the price of one—roughly what they would fetch as wrapping-paper. At those prices, a few titles will surely founder, no matter how high the rising tide.

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Drinking in Japan

Sozzled salarymen

Feb 15th 2007
From The Economist print edition

The Japanese are trying to combat drunkenness with technology

DRUNKEN salarymen tottering home after a night's karaoke are as much a feature of modern Japan as sushi bars and bullet trains. Alcohol consumption is declining in most of the developed world, but not in Japan, where the number of heavy drinkers has more than doubled in the past 30 years. The most recent survey by the health ministry found that almost 2% of the population were alcoholics.

Japanese have traditionally excused boozy benders as the only opportunity repressed workers have to loosen up and tell the boss what they think. But a horrific incident last year in which a drunk driver killed three young children in Fukuoka, a southern town, has prompted a change of heart. Consumer groups are campaigning against drunk driving, and the police want parliament to raise the maximum prison sentence from three to five years and to double the heaviest fine to ¥1m ($8,200). Japanese firms, for their part, sniff a big new market.

In the vanguard is Toyota, which plans to launch a car in 2009 that will shut down the engine if its driver is drunk, using sensors on the steering wheel to measure the alcohol level in the driver's sweat. If the driver is wearing gloves, a camera on the dashboard will check for dilated pupils and the car's computer will detect erratic steering. Nissan, meanwhile, is testing a breathalyser-like device into which the driver must blow before starting the car.

Japan's two leading mobile-phone operators, NTT DoCoMo and KDDI, have launched phones with built-in breathalysers, which they are marketing to bus and taxi firms. Blowing into a tube on the phone measures the user's level of intoxication, which is then transmitted to headquarters along with a mugshot of the user and details of the phone's location, determined by satellite. These devices are not cheap, at ¥89,000 per handset and a further ¥58,000 for the software. But KDDI has sold over 400 since last autumn—many of them to operators of corporate fleets, which account for 40m of Japan's 70m cars.

Another growth area is that of “driving agent” services for the sozzled. The *unten daikoukyoukai* service will send a team of two to pick up a customer (often at the request of a bar owner), take his keys and drive him home in one car with his own following. Such is the demand that the service employs more than 6,000 agents across Japan. In addition, Fujitaxi, a taxi firm, has patented a device for carrying the bicycles of people afraid to ride after drinking. Such devices were used more than 5,000 times last year, up from 350 times in 2005, says the firm. The salarymen are unlikely to stop drinking, but at least now they are more likely to get home safely.

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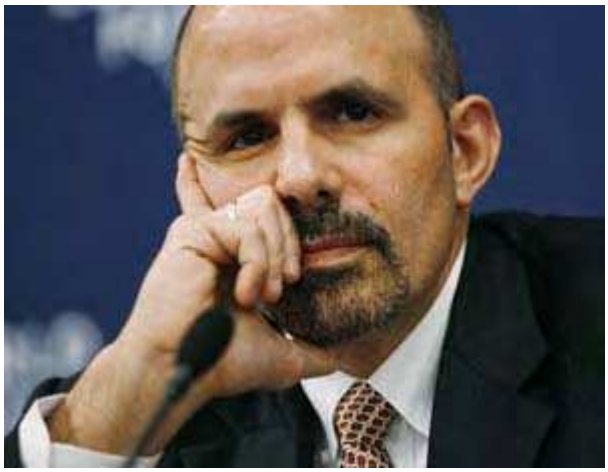
Face value

Bold fusion

Feb 15th 2007
From The Economist print edition

William Amelio believes that cross-cultural thinking will turn Lenovo into China's first successful global brand

Landov



“ONE thing about being an English speaker is we are a little lazy when it comes to learning other languages,” confesses William Amelio, who, unlike his six-year-old son, can barely manage a word of Mandarin. Fortunately for the chief executive of Lenovo, a Chinese computer firm on a mission to conquer the world, the language barrier has not been too troublesome. His Chinese colleagues, he says, understand that to thrive in a multinational company they have to “speak the global language of business, which is English”. That includes Lenovo's chairman, Yang Yuanqing, who in less than two years has progressed from hesitant to fluent English, giving presentations and cracking jokes in his adopted tongue.

Mr Amelio views the communication between himself and Mr Yang—a Bill Gates with Chinese characteristics—as a measure of how well Lenovo is putting together two very different business cultures. In 2004 Lenovo bought the personal-computer business of IBM, to pursue Mr Yang's dream of building China's first successful global brand. To win his board's backing for this deal, after some ill-fated attempts at growing organically abroad, Mr Yang agreed to hire an experienced American as chief executive. But the first choice, Steve Ward, formerly of IBM, was forced out in December 2005 following a difficult start to the merger.

When the Texas Pacific Group, a private-equity firm with a large stake in Lenovo, contacted Mr Amelio, he might have spurned the job as a poisoned chalice. Instead, he saw it as a “pioneering opportunity” and a “great fit”. It helped that he had spent 18 years at IBM, before spells at AlliedSignal, Honeywell, NCR and, finally, five years in charge of the Asian operations of Lenovo's arch-rival, Dell.

Mr Amelio's relations with Mr Yang, with whom he had been competing head-to-head, and who is hardly the sort to take the backseat, might easily have been difficult—especially with that initial language barrier. Instead, he says, he has a “great alignment with the chairman”, whom he meets every couple of weeks for a couple of hours. The division of labour was immediately decided: Mr Yang runs the board of directors and sets the strategic direction and Mr Amelio has operational control.

Mr Amelio prizes focus and self-discipline—and has a black belt in karate to prove it. He tries to apply to business the philosophy he learned from his Japanese coach: “I have been competitive all my life,” he says. “He taught me to compete against myself, not others.” The coach also inspired Mr Amelio to visit

Japan, in the late 1980s, and then China, sparking a continuing interest in Asia. Mr Amelio now lives in Singapore, partly because it is an easy base from which to travel in the region.

Mr Amelio talks a lot about “effective execution”, something he says he came to understand while working with Larry Bossidy at Honeywell. Execution is especially pressing at Lenovo because the company's strategy is already settled. Nothing could be as novel as its attempt to meld what he calls “two uniquely different cultures”.

The Chinese part of the firm, beset by deeply hierarchical and deferential behaviour, needs to get people to talk more openly to each other—even if that means confronting a superior. An “Executive Expressions” course helps Chinese managers learn how to put their message across and oppose their colleagues. The importance of straight talk in meetings, not afterwards, is constantly emphasised to all workers.

These cross-cultural lessons are needed if Lenovo is to accomplish the four main parts of its strategy. First, it wants to cultivate its Chinese sales model in the rest of the world. In most countries Lenovo sells chiefly to big businesses and governments, with which good long-term relations are crucial. In China, by contrast, it makes lots of one-off sales to small businesses and individuals, and as a result has by far the largest market share, of around 36%. In an effort to repeat this success in America, Lenovo has just reached a deal to sell more computers through Best Buy, a retail chain.

Beyond the Middle Kingdom

Second, Lenovo wants to make its businesses outside China more competitive—not least by adopting the same efficient, low-cost manufacturing techniques. Third, and closely related, it wants to improve its supply chain—the firm's greatest weakness outside China, according to Mr Amelio. In China Lenovo can deliver “pretty much anywhere” within eight working days 95% of the time, he says; in the rest of the world it had until recently been doing so only 40% of the time, though it has now improved that figure to 60%. A better supply chain should also help the company attain its fourth goal of a credible global brand. Lenovo only has until 2010 to make free use of the trusted IBM name, before having to switch to its own, less esteemed label.

Lenovo's shares tumbled recently on news that IBM had sold some of its Lenovo holding—a disposal that was long expected. Yet Mr Amelio views decoupling from IBM as a boost to the PC business, which Big Blue had seen as a low-margin, commoditised industry, and so had neglected. Now, however, there are plenty of dollars to be invested. The American operation's IT system is being updated for the first time in 15 years. “There is a feeling of a team being unleashed,” says Mr Amelio.

Mr Amelio says that Lenovo is rather like Hewlett-Packard shortly after his former colleague, Mark Hurd, took over and just before it surged. “As things come together, we are approaching a tipping point in growth,” he says. Not everyone is convinced. Some critics think that increased competition in China will hurt Lenovo's margins. And there is the possibility of a revival at Dell, now that its founder, Michael Dell, has taken the reins again. That said, as Mr Dell surely knows better than most, his former colleague, the master of karate, is ready for a fight.

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The future of money

A cash call

Feb 15th 2007 | LONDON, NEW YORK AND TOKYO
From The Economist print edition

Smart cards and mobile phones are quickly emerging as ways to pay with electronic cash

AP

SOME of the hottest nightclubs have a new trick for checking the identity of their VIP guests: they send an entry pass in the form of a super barcode to their mobile phones. This is scanned by the large gentleman who lifts the velvet rope. Even those who must pay to get in may need their handsets: at a recent clubbers' night at London's Ministry of Sound, students were offered discounts if they used their mobile phones to buy electronic tickets.

Mobile phones are becoming an increasingly popular way to make all sorts of payments. In America fans of the Atlanta Hawks have been testing specially adapted Nokia handsets linked to their Visa cards to enter their local stadium and to buy refreshments. Elsewhere schemes are more advanced. You can already pass the day in Austria without carrying cash, credit or debit cards by paying for everything, including consumer goods, with a mobile phone, says Arthur D. Little, a firm of management consultants. It reckons worldwide payments using mobile phones will climb from just $3.2 billion in 2003 to more than $37 billion by 2008.

Mobiles are used to buy lots of things in Asia. Earlier this month Visa and SK Telecom, South Korea's leading mobile company, announced the commercial launch of a phone-payments system aimed initially at 30,000 subscribers. In Japan hundreds of thousands of transactions, from buying railway tickets to picking up groceries, already take place every day with customers passing their handsets across a device like that pictured above. Payments are confirmed with a sound like the bell of an old cash register.

Sending money home

More banking services are also being offered on mobiles. On February 12th, 19 telephone operators with networks in over 100 countries said that people would be able to use their handsets to send money abroad. MasterCard will operate the system in which remittances will be sent as text messages. For people without bank accounts, the credit can be converted into pre-paid cards which can then be used to buy things. “It will revolutionise the money-transfer business,” said Sunil Bharti Mittal, boss of Bharti Airtel, one of India's biggest mobile operators. The idea is to tap into the more than $250 billion a year that immigrants and migrant workers send to relatives and friends back home.

Britain's Vodafone and America's Citigroup are also launching an international money-transfer service developed from the M-PESA remittance service which is already operating successfully within Kenya. Sir John Bond, formerly chairman of the HSBC banking group and now chairman of Vodafone, has long been convinced that payments and mobiles would somehow converge. “Mobile phones have the ability to make a dramatic change to village life in Africa,” he says.

He also thinks phones loaded with credit will make many of the payments people use cash for in rich economies. For banks with high infrastructure costs, says Sir John, it has always “been hard to make money out of small payments”. But lower-cost business models, some of them from developing countries, are opening up new opportunities. The big attraction of the mobile phone as a purse is that so many people have them—even children.

Buying a train ticket, picking up a newspaper and grabbing a cup of coffee on the way to work with just a wave of your handset promises to be a lot more convenient than fumbling for money and waiting for change, or using a credit or debit card and having to tap in numbers or sign a slip of paper.

Pre-paid or “smart” cards, like those used by Hong Kong's Octopus and London's Oyster for travel on subways, provide a lot of convenience—and for operators as well as passengers, because money is expensive to handle. Transport for London says in the three years since it introduced Oyster, the cards now account for three out of four journeys on the underground and buses. Cash payments for tickets have fallen to just 5%. It has helped to boost usage with differential pricing: tickets bought for cash cost a lot more than using a smart card.

Could retailers start charging more for taking cash? At present the fees merchants pay for taking credit cards lead many to impose minimum limits on what customers can charge. If the fees for using smart cards and mobiles were low enough, cash would be more expensive to take, so it might well attract a surcharge.

The attraction of the mobile phone as a purse is that so many people have them

Both MasterCard and Visa have recently introduced plastic cards in America that do not have to be swiped for purchases under $25. Later this year a “dual interface” system will be tested in London. It will involve a single plastic card which combines an Oyster for travel, a standard Visa card issued by Britain's Barclays Bank for “chip and PIN” payments and a new “wave and pay” Visa for instant transactions up to £10 ($19).

Energising money

The various “contactless” payment systems rely on a technology called “near-field communication” (NFC). The NFC device within the cards reacts when placed close to a reader or touched onto one. The machine induces an electrical circuit in the NFC device, which allows a short exchange of data to effect a transaction, such as deducting a fare from the stored value.

As NFC devices can cost only a few cents they could be inserted into every mobile phone. The idea is that instead of carrying another piece of plastic, just the phone will do. Payments made from those using stored-value are seen as relatively low-risk. Merchants are guaranteed payment and if the cards or phones are lost or stolen the cost to users is limited.

But mobile phones can be much smarter than smart cards. They can be de-activated remotely; they have a screen which can show information, like a credit balance and product information; they have a keyboard to enter information and they can communicate. This means they can also be used to authorise larger payments by entering PIN codes directly on the handset or topped up with stored credit from an online bank account without having to go to an ATM.

How to pay in Tokyo

To see the potential of mobile-phone money, start in Japan. Most Japanese have at least one credit card, but they tend to stay in their owners' pockets. With street crime almost non-existent, cash reigns supreme. Housewives routinely peel off crisp ¥10,000 ($82) notes to pay for their shopping. Utility bills and other invoices are dutifully taken to the bank and paid in cash, or more likely these days at the local convenience store. Yet despite the popularity of cash, the mobile phone is starting to change even Japan's traditional habits.

For customers in a hurry, being able to pay with their *keitai*—as mobiles are known in Japan—is a lot easier than using cash. Many handsets now perform the various functions of cash, keys, credit cards and ID. Most Japanese consider their phone to be secure; if it is lost or stolen it can be locked remotely to protect the cash, credit and other valuables tied to it.

According to “Mobile Payments and *Keitai* Credit”, a new report by Gerhard Fasol, of Eurotechnology Japan, paying small sums with electronic cash is rewriting the rules for the credit-card industry. “We believe that mobile operators, as well as credit-card companies inside and outside of Japan, should consider how to prepare strategically for the likely success of these mobile payment systems,” says Mr Fasol.

Accounts can be set up quickly and mostly without credit checks. There are already 500 or so smart-card services in use in Japan and many of these are migrating to mobile phones. Credit can be bought for cash, topped up at ATM terminals or purchased from online banking services. Some cards and phones also double up as employee ID badges and allow purchases at canteens, nearby restaurants and vending machines.

Edy is the biggest contactless-payment method in Japan and is accepted by some 43,000 stores. The system is operated by bitWallet (itself jointly owned by NTT DoCoMo, the country's largest mobile-phone operator, and Sony). Edy accounts for 15m transactions a month, a rate that is doubling annually. It has about 23m users, of which 4.5m are already on mobile phones. The nearest rival is Suica, the brainchild of JR East railway, with over 18m accounts.

Many smart-card systems do not work with each other, but that will change on March 18th when 26 railways and 75 bus companies in the greater Tokyo area will begin sharing a new stored-value system, called Pasmo. This too will be available both as a plastic smart-card or built into mobile phones.

What appeals to the Japanese about e-cash is the way it speeds things up. It offers the convenience and portability of cash, but more so. It takes no more than a tenth of a second to complete most transactions. As no change is required, counting errors are eliminated. Fraud and theft are reduced. For the retailer, it reduces the cost of handling money. And because e-cash is smart, it is easy to add extra services. For instance, ANA, Japan's second largest airline, allows Edy users to convert frequent-flyer miles into e-cash.

Many of the *keitai*-credit systems rely on a NFC chip called FeliCa, which was developed by Sony. This chip is embedded in both NTT DoCoMo's wallet phones and the new Pasmo system. The chips have to work rapidly and reliably, says Ted Osamura of FeliCa. For instance, the railway operators have insisted that their system can admit 60 passengers a minute through each ticket barrier.

Sony also wants to get its FeliCa chip embedded into computers, televisions and games consoles. That way digital content, like films, music and games, can be paid for easily and without having to enter credit-card details. As the main matches of Japan's budding basketball league are broadcast in paid programmes over the internet, there could be plenty of demand.

NTT DoCoMo is comfortable offering credit because it already sends bills to its subscribers. It knows their names, addresses and bank-account details. It offers two types of credit. One provides a limit of ¥10,000. Approval is instant without a credit check. The other typically starts at ¥200,000 and goes up to ¥1m (with a “gold card” service beyond that). Credit checks could take a couple of weeks, but purchases can be made with just a few clicks on the keypad of the phone.

Stored-credit also allows anonymous payment systems to be offered, just as some travel cards or “pay as you go” mobile-phone services do. These are popular because they are simple and do not involve contracts, even though they might cost more. But the convenience of automatic top-ups and other services may persuade many users to open formal accounts for their mobile phones.

Flashing the plastic

Unlike the Japanese, Americans prefer to use plastic for their purchases. Cards account for more than half of all transactions, up from 29% a decade ago, according to *Nilson Report*, a trade publication. More than 1.5 billion credit cards are stuffed into Americans' wallets. The average household has more than ten.

The infrastructure for mobile-phone payments in America is starting to take shape. The market for pre-paid cards already exceeds $180 billion and includes

The infrastructure

telecoms cards, pre-paid cards issued by Visa, MasterCard, American Express and Discover, and gift cards issued by retailers like Gap or Starbucks. Cards are also issued for health-care and government benefits.

for mobile-phone payments in America is starting to take shape

Banks and credit-card firms hope to convert more cash and cheque payments to plastic with new smart cards. Some versions are already very successful. Many Americans use EasyPass, in which drivers pay for highway tolls wirelessly. They are later billed on their credit cards. SpeedPass, a contactless keychain issued by Exxon Mobil, can be used at petrol stations.

Yet compared with the overall market, the new payment systems are still small. John Suchanec, of Bank of America, says that whereas debit and credit cards are accepted at 6m locations in America today, only 1m sites accept contactless cards. The same systems for contactless cards can be used for mobile phones.

Lower fees for shops could speed up adoption, along with the installation by merchants of more readers to take payments. Again the less well-off countries are sometimes the origin of cheaper ways to use the technology. Instead of making a big investment in having lots of electronic NFC ticket-checking devices at the entrances and exits of stations, Croatia has found that tickets can be bought by and delivered directly to a mobile phone. When the inspector calls, the ticket can be displayed on the screen.

Mr Suchanec says a big opportunity still to be exploited is the “two-way” conversation that mobile-phone systems allow. Banks could send text messages to customers using mobiles linked to their accounts. Coupons or product information could be delivered directly to mobiles as consumers pay for items. This opens up lots of new marketing opportunities, which could underwrite fees.

Art Kranzley, of MasterCard, believes mobile-phone payments could cut down on fraud. His company is testing, with KeyBank, a system that allows a customer to punch his PIN number into a phone before making a purchase, in effect turning the phone into a credit card. Studies by Visa show that the average American consumer is twice as likely to carry his mobile phone as he is to carry cash. For those aged 18-34, the average is four times as likely.

Some of the fastest-growing payment systems already operate online. Banks provide online processing for clients to accept internet payments made by credit or debit card when the customer is not present. But, as Sony hopes, computers can be equipped to do the same thing without giving away credit-card details.

This could prove very popular. One attraction of PayPal as an online-payments system is that neither credit-card nor banking details are exchanged when payments are transferred instantly between account holders. PayPal, which is owned by online auctioneer eBay, now has more than 120m accounts with people in over 100 countries, and claims a fraud rate that is much lower than a typical credit-card firm. PayPal has also begun to promote its own mobile-phone payment services.

With their grip on the market, banks and credit-card firms want to be in a position to collect most of the fees from the users of mobile and contactless-payment systems. But the new systems could prove to be a “disruptive technology”. Banks could be “disintermediated” if, say, the payments for the train ticket, newspaper and coffee made every day by a commuter with his mobile phone appear not on their monthly credit-card statements, but on those of a mobile-phone service provider or an online-payments firm like PayPal.

It is still too early to say whether banks and other financial companies will miss out and if so by how much. A natural division may emerge. Tim Attinger, of Visa, thinks phone companies will not be interested in letting customers charge big-ticket items to their phone bills, because it would require them to take on more financial-risk management and start functioning like banks (which have to deal with customer defaults, collect payments and resolve disputes). And the credit-card firms will want to keep making their new contactless plastic cards (both in and out of phones) easier to use for small payments.

Time to pay up

Much may depend on how bills are settled. Payments associations would lose out if customers pay for goods directly from their bank accounts (whether via mobile phone or online banking services) rather than with credit or debit cards. Banks could try to charge customers for settling such bills online; however in the past such schemes have failed. Some of the smaller banks, which do not have payment-card portfolios to protect, might have the most to gain from offering customers a way to use their mobile phones to pay

for items directly from their accounts.

Having spent fortunes on branding, credit-card firms and banks do not want to see other payment systems gain ground. This presents a threat to banks, says Dan Schatt, of Celent, a research company. Historically, banks have controlled both the hardware (chequebooks and debit/credit cards) and the distribution (branches, websites, etc). Mobile-phone banking and contactless smart cards could escape some of their control. Banks could lose customers, says Mr Schatt.

Or will they? Banks and credit-card firms say that if cash is replaced by mobile phones, they intend to be part of the transition. A decade ago some observers predicted that internet banking would render retail banking from high-street branches obsolete. But JPMorgan, Bank of America and others are adamant that people are nowadays using bank branches more than ever. Even if the phone and the smart card replace cash, who gets to collect the fees remains open to contention.

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American mortgages

Bleak houses

Feb 15th 2007 | NEW YORK
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Satoshi Kambayashi

America's riskiest mortgages are set to pop. Where will the shrapnel land?

LAST March, ResMAE, a mortgage lender catering to risky borrowers, cut the ribbon on its new headquarters in Brea, California. The sprawling, 135,000-square-foot building dwarfed the company's 458 local employees. But it fitted the firm's outsized ambitions. Less than a year later the company, rather than its ribbon, was facing the chop. This week it said it had filed for bankruptcy and was selling its assets for a diminutive $19m.

ResMAE is one of over 20 casualties among America's “subprime” mortgage lenders, which serve borrowers with spotty credit histories at higher interest rates. This end of the market took on $605 billion of new mortgages last year, more than a fifth of the total. But as interest rates have climbed, these loans have soured and the shares of bigger subprime lenders, such as Countrywide Financial and IndyMac, have sagged.

Does the rot run deeper? That fear ran down a few spines on February 7th, when HSBC, Europe's biggest bank, revealed that bad loans at its American subprime mortgage division were 20% higher than expected. The same week New Century, the second-biggest such lender in America, projected a big drop in loans this year because of poor market conditions.

They are not the only ones exposed to America's home-loan blues. Citigroup peddles mortgages to risky borrowers through CitiFinancial, its consumer-finance arm. Subprime lenders have also been scooped up by investment banks, including Morgan Stanley, Merrill Lynch and Deutsche Bank, in recent months. Notably absent are Fannie Mae and Freddie Mac, America's government-sponsored mortgage giants. Both were set up for people who dreamt of homeownership, but could not afford it. They also have the best data on borrowers, including those rejected for loans in the past. Perhaps they knew something others did not.

Indeed, the woes of the subprime lender are mostly self-inflicted. After interest rates turned up in 2004, mortgage-makers could no longer count on custom from homeowners looking to switch to new mortgages at cheaper rates. Saddled with expensive lending platforms, mortgage-writers were desperate for a new source of revenues. They found two: riskier borrowers and riskier products.

They loosened their lending standards as the demand for loans started to drop in 2004. They also resorted

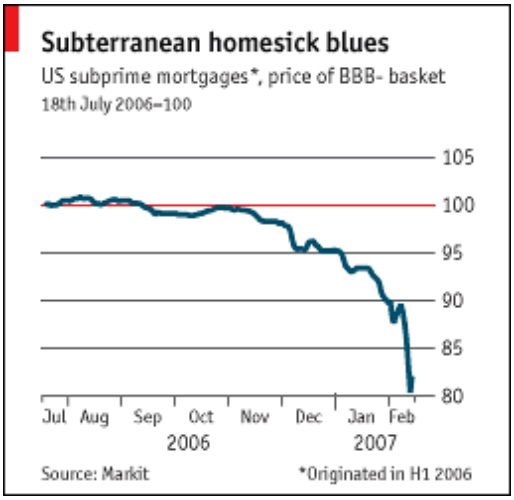
to “alternative” products with enticing terms and off-putting names, such as “negative-amortisation” loans (which set repayments so low that the debt gets bigger) or “hybrid” adjustable-rate mortgages (with low teaser rates that jump after a few years). About 27% of all mortgages made in 2006 were of such non-traditional kinds, according to *Inside Mortgage Finance*, a newsletter.

Not content with these two moneypots, the more eager lenders began to combine them to make a third. They offered risky products to insecure borrowers. According to the Federal Deposit Insurance Corporation (FDIC), hybrid mortgages made up three-quarters of all new subprime loans in 2004 and 2005. The FDIC reckons many firms underwrote hybrid loans assuming that borrowers would refinance them quickly, before the low introductory rates jumped. But this was a reckless assumption when interest rates were rising and house prices softening.

An over-reliance on unseasoned risk models is also partly to blame for bad underwriting. Subprime and alternative mortgages belong to “uncharted territory”, says Sheila Bair, head of the FDIC, making “modelling credit performance exceptionally difficult”. The chief executive of HSBC, Michael Geoghegan, admitted as much in a conference call last week: “You've got to have history for analytics...the fact of the matter is there [isn't history] for the adjustable-mortgage rate business when you've had 17 jumps in US interest rates.”

The pressure to lend did not only come from within. Even as mortgage-writers lured borrowers with soft terms, they were themselves tempted by the strong appetite of investors for riskier assets. Wall Street banks did a roaring trade packaging bunches of subprime loans into mortgage-backed securities, and selling them on to investors, greedy for yields (see chart).

The art of securitisation, as it is called, adds liquidity to the market and allows risks to be parcelled out to those most eager to bear them. Over the past few years, it has also freed up cash for more lending and earned banks pots of money. But it may have made a wobbly subprime market even wobblier. Banks are traditionally supposed to know a bit about the borrowers on their books. But in many cases, their loans did not stay on their books long enough for them to care. Mortgages were written for a fee, sold to investment banks for a fee, then packaged and floated for another fee. At each link in the chain, the fees mattered more than the quality of the loans, which could always be passed on. “This was classic market failure,” says Anthony Sanders, a mortgage expert at Ohio State University's Fisher College of Business. “The private sector wanted fees and got them, and they did not much care what happened afterwards.”



Some banks do get caught holding the live grenade. FDIC reckons that depository institutions hold $3 trillion of mortgages. Much of this is higher-quality stuff, but not all. And even banks eager to securitise their loans sometimes retain the “residual”—the most risky slice where losses hit first. CreditSights, a research firm, notes that Bear Stearns holds about $6.8 billion in residuals, although only a fraction is below investment grade. Banks that write mortgages are also contractually obliged to buy back securitised loans if their underwriting is shown to be shoddy or if the loans sour too quickly. That is what felled ResMAE and is hurting Accredited Home Lenders Holding, a San Diego lender.

Burnt palms

Diversified banks will not meet the same fate. Many big ones, notes Howard Mason of Sanford Bernstein, a research outfit, were careful not to mix risky products with risky borrowers. Wells Fargo, for instance, sells most of its alternative mortgages to “prime” customers. Citigroup sells to subprime borrowers but does not offer alternative mortgages. However, the unregulated non-bank mortgage lenders, like New Century, could suffer.

Should loan losses climb, investors in mortgage-backed securities will also get burnt, especially those holding the riskier, higher-yielding bonds. Financial engineers worked their mysterious magic with these securities, turning the junkiest mortgages into high-grade, sometimes AAA-rated, securities. They could do this only with the blessing of credit-ratings agencies, which made a profitable business out of rating these securities. But critics say the agencies got complacent, and doubt the pooled loans were sufficiently diverse, or sliced up with sufficient art truly to have dispersed risk. One possible blind spot is that the dodgiest mortgages all behave similarly in times of stress. Another is that it is hard to avoid heavy

exposure to mortgages from California, the biggest market in America, where alternative products were popular.

No one quite knows in whose hands these little bombs will ultimately explode. The hope is that the risks are widely and thinly spread. The fear is that they all sit in the lap of a few big hedge funds. But the real casualties may be homeowners, who often took out risky loans they could barely afford or did not understand. The FDIC has already tightened rules on underwriting negative-amortisation loans, and the Senate has begun to hold hearings on predatory mortgage lending. With Democrats now in charge of Congress, there is a fair chance the politicians will act. The Eliot Spitzer of the housing downturn may be about to start his charge.

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About sponsorship

Securities lawsuits

Classier actions

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From The Economist print edition

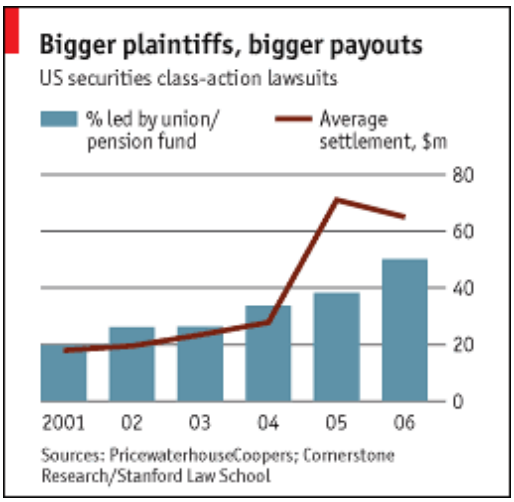
Shareholder class actions are fewer in number, but bigger and better led

AFTER years of lost sleep over Sarbanes-Oxley and other post-Enron clampdowns, can America's corporate chieftains finally stop fretting so much about the threat of shareholder litigation? Some of them will be soothed by news that the Securities and Exchange Commission, the main financial-markets watchdog, wants to make it harder for “professional plaintiffs” to win securities class actions (in which investors band together to sue listed firms over accounting irregularities or abrupt dips in the share price). Others will be lulled by the recent drop-off in filings of such suits.

Wake up. Alert executives will have noticed two things that should still keep them up at night: settlements are much bigger than they were, and payouts increasingly come with strings attached. Both developments reflect the rise of a more knowing and demanding kind of plaintiff.

Last year only 110 securities class actions were filed in America, well below the average of 193 for the previous ten years, according to Stanford Law School and Cornerstone Research. But the average settlement, at $65m, was much higher than in 2001-04 and only slightly below the peak of $71m reached in 2005.

Dan Dooley of PricewaterhouseCoopers, an accounting firm, links this to the growing power of institutional investors. Until a few years ago, the status of “lead plaintiff” was mostly awarded to the first shareholder to file suit, usually an individual. But in recent years pension funds have stepped into that role with increasing gusto, exploiting a law offering leadership to the investor who has lost the most, not the one who sues first. Big institutions, including retirement funds and unions, now front more than half of all cases, double their share of five years ago (see chart).



CalPERS, America's largest pension fund, has led several class actions over the past three years, the latest being a case against UnitedHealth over its stock-option practices. The New York City Employees' Retirement System, which manages $89 billion on behalf of municipal workers, agreed last month to lead an options-backdating lawsuit against Apple. Nowadays, when S&P 500 companies are sued, a respected investor will almost always step forward to lead the disgruntled masses.

And they lead them well. Cases fronted by unions, pension funds and mutual funds result in settlements that are around one-third larger than those led by small fry, according to a recent report by NERA, a consultancy.

One source of their success is the tight leash they keep on their lawyers. They often employ their own advisers and are thus less willing to accept whatever deal counsel recommends. Plaintiff lawyers are not above wrapping things up in a hurry when progress slows and they have other battles to fight. The institutions are also better at squeezing lawyers' fees and their share of settlements. As a result, some frustrated attorneys are going out of their way to avoid such switched-on clients.

The more generous settlements may also be owing to big investors choosing cases more carefully to start with. Unlike some small shareholders, they have better things to do than wage frivolous legal battles. “Fewer lawsuits are being brought, but they are better,” says Stuart Grant, managing partner of Grant & Eisenhofer, a law firm that specialises in securities cases.

Though CalPERS and its like are keen to punish corporate miscreants, they also have a higher purpose: to improve behaviour. On top of the usual payouts, pension-fund plaintiffs increasingly insist that companies reform their governance: bringing in more independent directors, reforming executive-pay schemes, splitting the roles of chairman and chief executive, and even—in the case of TXU, a utility—creating a chief governance officer. “They may want money, but they also want to send a message,” says Adam Savett of ISS, a shareholder-advisory firm. Plaintiffs want chief executives to take a good look in the mirror before they lie awake at night.

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Buttonwood

Before the fall

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From The Economist print edition

An uneasy calm has settled over financial markets

IT IS a scene familiar to all Western lovers. The cavalry is riding through a mountain pass. One officer turns to a comrade. “I don't like it,” he says nervously. “It's too quiet.” The next second, an arrow hits him in the chest.

The financial markets are in a similar state of nervous anticipation. Things have been going extremely well. According to David Rosenberg of Merrill Lynch, the American stockmarket has sustained its longest run since 1954 without a day's decline of 2%. The interest-rate spread offered by high-yield, or junk, bonds over Treasury bonds is thinner than ever. Volatility is low. A market “correction”, aimed straight at the chest, seems overdue.

The terminology of financial markets can be imprecise. A crash is a sudden, precipitate decline like “Black Monday” in October 1987, when the Dow Jones Industrial Average fell by 22.6% in one day. A bear market is a longer-lasting event such as the period from March 2000 to March 2003 when British share prices fell by half. A correction is somewhere between the two, neither as violent as a crash nor as prolonged as a bear market, with prices falling by around 10-20%.

Bull markets are generally interrupted by a few corrections. Apart from the 1987 crash, the great bull market of 1982-2000 saw setbacks in 1990, 1994 and 1998. There was a wobble in May-June last year (emerging markets took the biggest hit), but this bull market has trotted on pretty serenely for four years.

Corrections can be caused by economic downturns or by some kind of unexpected event, such as the Russian debt crisis of 1998. But they could also be seen as part of the natural rhythm of markets, as traders and investors pocket profits before climbing to new peaks.

What might prompt a correction now? One possible trigger might be the trend in corporate profits. For more than three years, American profits have been growing at an annual rate of over 10%. This has lent strong support to the stockmarket.

But capital is taking a bigger slice of America's national income now than in any of the past 40 years. Even if profits could hold that share, they would merely rise in line with the economy, perhaps by 5-6% a year (including inflation). Already, the pace appears to be slowing. In the fourth quarter of 2006, according to Capital Economics, a consultancy, the proportion of S&P 500 companies reporting disappointing earnings rose to its highest level in more than two years. If that trend continues, investors could lose heart.

Then there is debt. Last week HSBC admitted that its riskier American mortgage-holders were defaulting in unexpected numbers. American banks have also become noticeably more restrictive in their lending standards to companies, according to Albert Edwards, the famously bearish strategist at Dresdner Kleinwort.

Historically, tougher bank attitudes have been associated with changes in the default rate for corporate bonds. That default rate has been very low over the past three years, a big reason why corporate-bond spreads have been so narrow.

But a sudden upturn in consumer- or corporate-debt defaults could prompt a sell-off in the bond markets. That could easily trigger stockmarket weakness and would also prove an interesting test of the robustness of the credit-derivatives markets, where investors insure themselves against default. The derivatives market was a lot smaller when defaults last peaked, in 2002.

Or perhaps the selling will be set off by geopolitics. The war of words between America and Iran continues unabated, and with America intensifying its efforts to pacify Iraq, there is a danger that the two sides may blunder into military conflict. Now that investors (and consumers) have become used to oil at $50-60 a barrel, a sudden leap to $80 or even $100 might prove very damaging to confidence.

Sometimes, the cue to get out of shares comes from within the market itself, as in 1989 when the collapse of a buy-out offer for United Airlines prompted a sharp decline in prices. Investors are now fixated on hopes of multibillion-dollar takeover offers from private-equity groups. Were a big deal to fail, investors' disappointment might turn to broader disaffection.

Of course, markets are used to clambering over a “wall of worry” and they may already have discounted any or all of these possible triggers and traumas. But as Merrill Lynch said recently, there is “a whiff of complacency in the air”. And that can be dangerous. Remember the American civil war's General John Sedgwick, whose last recorded words were: “They couldn't hit an elephant at this distance.”

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Competition policy in the EU

Big chains enjoy a buyer's market

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If squeezing suppliers benefits consumers, so be it

MONOPOLIES attract the disdain of economists and the attentions of trustbusters because they can gouge their customers. As the sole seller of a commodity, they can raise prices with impunity—consumers have nowhere else to go. But what if a company were a dominant buyer, able to gouge its suppliers by lowering prices with impunity. Should anyone else care?

That is the question antitrust experts in London and Brussels are contemplating in the wake of a report into Tesco, Britain's leading grocery retailer, and its rivals, released last month by the country's Competition Commission. It marks the halfway stage of an 18-month inquiry into the grocery market, one of the most concentrated in Europe. Just four big chains account for 73% of sales at supermarkets and convenience stores.

By examining supermarkets, the competition authorities hope to respond to general public unease about the buying power of big retailers. Tesco, with its 30% share of the grocery market, is viewed by some as a sinister force. Smaller grocers fear the loss of custom, of course, but they also claim that suppliers overcharge them, because they need to make up margins lost to the big chains. But the commission's initial study of 15 suppliers did not find that they consistently favoured larger chains at the expense of small retailers. Nor did it find firm evidence that the chains' muscle deterred suppliers from making necessary investments, or undermined the viability of wholesalers.

These preliminary findings reflect a subtle but discernible shift in competition policy. A previous inquiry, concluded in 2000, resulted in a code of conduct encouraging the big supermarkets to be kinder to their suppliers. That investigation was framed by a 1973 law, which said the yardstick for judging business behaviour was the “public interest”. But more recent legislation has compelled the authorities to use a narrower and clearer test: do a firm's actions help consumers, or hurt them? If supermarkets press their suppliers into offering better terms, so what? As long as that shows up in lower prices or greater choice for the shopper in the aisle, the authorities say it is fine. However much sympathy the commission may feel for Britain's farmers and others who feel squeezed, there is little under the law they can do about it.

The case is likely to resonate beyond Britain's shores, says Andrzej Kmiecik, a competition lawyer at Van Bael and Bellis. Competition findings in one European Union country are often cited elsewhere. And this study is unusual. Britain is the only country in Europe that carries out exercises of quite this kind: an inquiry prompted by a general concern, not a particular merger, which nonetheless arrives at enforceable conclusions. The commission's final report is not due until November, but it is already possible to speculate about its wider impact and influence. Because the interim review has been unable to confirm manipulation of supply chains, for instance, worries about excessive buyer power will probably be given less weight in similar cases elsewhere.

Finally, this inquiry showcases the Competition Commission's single-minded focus on competition, a focus other authorities would do well to emulate. “These exercises can in the wrong hands become fishing expeditions that are costly in terms of adviser fees and management time,” says Simon Bishop of RBB Economics, a consultancy. The farmers, animal-rights groups and the Rural Shops Alliance may have had their say, but in the end, the trustbusters are casting a line, not a trawl net.

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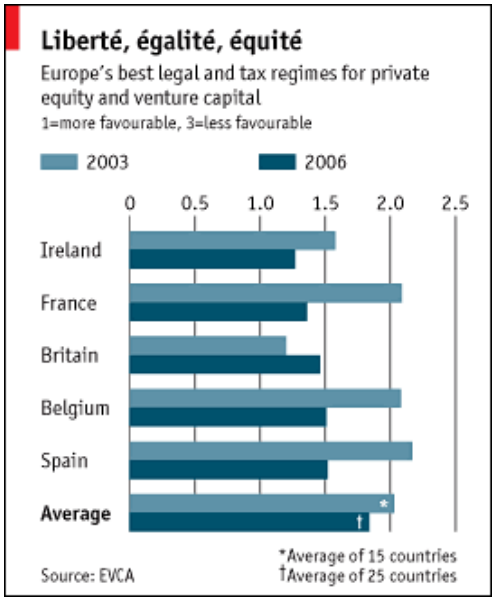
Private equity

Less taxing

Feb 15th 2007
From The Economist print edition

As private equity booms, some governments are helping out



EVEN as investors coo and fuss over private-equity firms, some politicians, particularly in Europe, are full of sound and fury. In Denmark the government recently proposed to penalise companies that borrow heavily. In France Nicolas Sarkozy, a presidential candidate, railed this week against debt-led corporate raiders. And in Britain a large union is campaigning against private equity. But the political posturing and trade-union bluster signifies little. Indeed, many governments, even in Europe, have recently adopted policies that welcome the new kings of capitalism.

Take a recent survey by the European Venture Capital Association (EVCA). Over the past three years, it says, tax policies and legal codes have become more favourable to private equity and venture capital in most European countries. Some places, such as Spain, that looked quite uninviting to such investors just a few years ago are now rather hospitable.

What are governments doing to woo private-equity firms? Making it easier for institutional investors to put money into private equity is vital in certain markets: more than a quarter of all private-equity investment in the region has come from pension funds, and more than a fifth from insurance firms. Ireland, which has the region's most appealing tax and legal regime according to the EVCA, was quick to adopt pension-fund and insurance legislation to boost such investments. In addition, it offers financial incentives for research and development (important for venture-capital firms), and has the lowest corporate tax rate in Europe.

Britain, by far the largest private-equity market in the region, slides to third place in the latest survey (see chart above). But that is less about Britain doing things wrong than others getting things right. Critics of private equity, including the increasingly noisy officials of the GMB union, want the government to crack down. And some ministers, playing to the backbenches of their own party, have also voiced concern. “There's a lot of wind flying about on all of this,” says an industry lobbyist in London, who does not seem terribly ruffled by it all.

Perhaps the survey's biggest surprise is the second place awarded to France, a country often regarded as a bastion of anti-capitalist sentiment. The EVCA notes “remarkable improvements” in the way French laws and taxes treat its members in the past four years. Pension funds and insurance companies can invest freely in private equity, fund-management fees are exempt from value-added tax, and tax breaks targeting private-equity and venture capital encourage investment in companies that the state deems to be especially “innovative”. But the benefits are not evenly spread: foreign investors in France miss out on some advantages that domestic investors enjoy. The advantages are also partly offset by high taxes on capital gains (which hurt investors) and on incomes (which sting well paid fund managers).

Marie-Annick Peninon-Bernard, an official with the EVCA, says governments are more inviting now, partly because they recognise that pension funds need to boost their long-term returns to meet future obligations. Eventually, she adds, the hope is for greater harmonisation of tax and legal regimes across Europe. This would free fund managers and investors from the added costs of navigating Europe's fiscal and legal patchwork. It is the allure of a big and seamless market, as well as low taxes and favourable laws, that makes America the choicest market for private equity in the world.

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Italian banking

Capers at Capitalia

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Reuters

The old guard welcomes new shareholders

NOW in full swing, Italy's carnival season usually provides some fun. This year Capitalia, one of the country's biggest banking groups, is adding financial colour and noise. Matteo Arpe, its chief executive, is young and cocksure; Cesare Geronzi, its chairman, old and calculating. As in the best *Commedia*, the generations are at war with Mr Arpe, beloved by the bank's wider shareholders, fending off the old guard. Carnival-watchers in the financial press are busy peering at masks, trying to discern who may be lining up against him.

Not I, insists Vincent Bolloré, a French financier rumoured to have accumulated a sizeable stake in the Italian bank. Last week he revealed that his holding is in fact below the 2% threshold that would require him to reveal his hand to the authorities. Banco Santander, Spain's largest bank, likewise owns only 1.9% and AXA, France's biggest insurer, reportedly has 1-2%. But these small holdings could understate their influence, which may be exercised indirectly, through friends, familiars or financial derivatives.

These interlopers may be setting themselves up for a merger or takeover of the Italian bank. Certainly, Capitalia would be an appetising morsel in a market now short of other offerings. The recently combined Banca Intesa and Sanpaolo IMI are now hard to swallow, as is UniCredit, which has expanded abroad. To those licking their lips, Capitalia offers more than just a big retail bank. It also has a hold on Assicurazioni Generali, Italy's biggest insurer, owning 2.7% of the company itself, as well as a 9.6% stake in Mediobanca, an investment bank that is the insurer's biggest shareholder.

However, the show at Capitalia is about more than a possible takeover battle. It is also a clash of old and new styles of management. Mr Arpe has the markets on his side: the bank's market value has risen tenfold during his five years at the helm. But Mr Geronzi can draw on decades of power-broking in Rome.

In December he was suspended as chairman, following a conviction for his involvement in the bankruptcy of a property group. He is appealing against the verdict, and was re-instated as chairman by shareholders on January 19th. Not everyone welcomed him back—a group of foreign investors and an Italian charitable foundation voted against his return—and the government is considering a new law that would require him to prove his innocence before he could continue in his role. But so far Mr Geronzi's legal troubles have not slowed him down. During his enforced break, he went looking for a sympathetic general-manager to counter-balance Mr Arpe. And despite the denials of Mr Bolloré and the rest, Mr Geronzi may also be ushering in sympathetic shareholders, who will back him in his future battles. Carnivals are a time for mischief and mystery. But in Capitalia's case, it is clear who is playing master of ceremonies.

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Economics focus

The art of the possible

Feb 15th 2007
From The Economist print edition

A new study picks over the delicate political economy of freeing markets

NO ONE likes to lose a privilege, especially one that brings in money. So it should be no surprise when Italian taxi-drivers protest at proposals to deregulate their trade, French public-sector workers demonstrate against threatened job losses or farmers from South Carolina to South Korea do whatever they can to keep subsidies and tariffs. Nor should it shock anybody when politicians cave in to such opposition and shy away from economic reform, even when they are persuaded of its merits.

In its third annual "Going for Growth" report, published on February 13th, the OECD does its best to explain why reform meets resistance (a relatively simple question) and how opposition might be overcome (a fiendishly difficult one). The report looks at "structural" reforms—policies that, for example, ease entry into goods markets; cut the costs of firing and hiring; or relax barriers to foreign ownership. Better policies should help close the gap between the richest OECD countries (measured by GDP per person) and the rest.

These reports typically reserve most of their concern and criticism for the OECD's European members. But just now, the Europeans may be feeling rather pleased with themselves. The euro zone's economy grew by 3.3% in the fourth quarter of 2006, compared with a year earlier, its fastest pace for more than six years. Better still, some of this improvement has structural causes. Markets are freer than they were, several million jobs have been created and the euro area's natural rate of unemployment seems to have fallen by around a percentage point since its last upturn. Probably, though, the pick-up in growth is mainly cyclical. As Jean-Philippe Cotis, the OECD's chief economist, writes at the start of this week's report, a strong recovery has "ambiguous consequences", because it makes reforms "both easier to implement and seemingly less necessary to undertake."

Indeed. The report's most disheartening conclusion is that reform must often wait for the sting of a crisis. This is borne out, it says, by the experiences of Britain in the late 1970s, the Netherlands and New Zealand in the 1980s and by Italy in the early 1990s. Governments seem more likely to loosen their product and labour markets when GDP is more than 4% below potential.

Policymakers may think this finding is of little use: calling forth catastrophe is an odd way of promoting prosperity. However, it does serve as a useful warning. Desperate times will make reform unavoidable. Better then, to carry it out during less painful interludes. One reason is that a full treasury can help to compensate the losers. By the same token, it is much harder to carry out structural reforms at the same time as tightening the budget. That said, fiscal consolidation can pave the way for reform by setting aside some money in advance. In the 1980s, for example, Denmark and Ireland put their public finances in order before liberalising product markets and shaving the tax "wedge" between what workers take home and employers pay out.

Give and take

Monetary policy too can "grease the wheels". For example, cutting tariffs or opening industries to new entrants ought in theory to increase supply and reduce inflationary pressures. An inflation-targeting central bank would then ease policy, boosting demand. However, this is easier for countries with their own central banks, such as Britain and Sweden, than it is for members of Europe's currency union. In the euro area, only collective virtue is rewarded. A member that reforms by itself does not carry much weight in the euro-wide deliberations of the European Central Bank. But if a currency union makes reform harder, it also makes it more necessary. When interest and exchange rates are not free to move in response to economic shocks, prices and wages must. Alas, the OECD notes some evidence that the creation of the

euro may have slowed reforms down.

Given the obstacles they face, reformers rarely tackle everything at once. So where do they start? Change often begins abroad. If, for example, foreigners liberalise their telecommunications industries, thereby cutting costs for their companies, firms at home will demand the same freedoms. Trade deals and European Union membership (especially its single-market programme) have also led to domestic reforms: it is always handy if foreigners can be blamed.

At home, reformers typically follow a three-step sequence. Financial markets are liberalised before markets for goods and services, which in turn tend to be freed before labour markets. This makes sense. Financial liberalisation makes job-market reform easier: by reducing the cost of capital, it lowers prices and therefore raises real wages. Competitive product markets likewise squeeze profit margins, pare prices and push real wages up. All of this facilitates job-market reform, says Mr Cotis, but it also spurs it. Once product markets are free and companies feel squeezed, they will look for ways to bring labour costs down.

But the OECD worries that some members have got stuck at step 2.5 of this natural sequence. Their overhaul of product markets has been “extensive”, but their labour reforms have been “hesitant” and “selective”. By lifting restrictions on temporary contracts and job agencies, several European governments have made it easier to hire people, mainly youngsters and women, formerly consigned to the fringes of the labour market. But legislators have not dared to unsettle well-placed workers, who remain entrenched in highly protected jobs. As a result, they are left with a “dual” labour market, split between the precarious and the secure, which seems to resist further reform.

The OECD is a bastion of technocracy, wedded to policies that are economically sound, even if not always politically expedient. But a careful reading of this report would give an opportunistic reformer plenty of hints, tips and tricks. It offers a guide to the subtle art of making possible what is necessary.

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Quantum computing

Orion's belter

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The world's first practical quantum computer is unveiled

Stephen Jeffrey

Get article background

AS CALIFORNIA is to the United States, so British Columbia is to Canada. Both are about as far south-west as you can go on their respective mainlands. Both have high-tech aspirations. And, although the Fraser Valley does not yet have quite the cachet of Silicon Valley, it may be about to steal a march on its southern neighbour. For, on February 13th, D-Wave Systems, a firm based in Burnaby, near Vancouver, announced the existence of the world's first practical quantum computer.

On paper at least, quantum computers promise to reduce dramatically the time needed to solve a range of mathematical tasks known as NP-complete problems. One famous example is the travelling salesman problem—finding the shortest route between several cities. This is a puzzle that increases exponentially in complexity with the number of cities considered. The reason is that every possible permutation needs to be looked at in order to find the best.

Quantum computers provide a neat shortcut to solving such problems. They do so by encoding all possible permutations in the form of a small number of “qubits”. In a normal computer, bits of digital information are either 0 or 1. In a quantum computer these normal bits are replaced by a “superposition” (the qubit) of both 0 and 1 that is unique to the ambiguous world of quantum mechanics. Qubits have already been created in the laboratory using photons (the particles of which light is composed), ions and certain sorts of atomic nuclei. By a process known as entanglement, two qubits can encode four different values simultaneously (00, 01, 10 and 11). Four qubits can represent 16 values, and so on. That means huge calculations can be done using a manageable number of qubits. In principle, by putting a set of entangled qubits into a suitably tuned magnetic field, the optimal solution to a given NP-complete problem can be found in one shot.

The end of the beginning

D-Wave Systems chose two very practical problems to demonstrate its 16-qubit processor, which it has called Orion. One was a pattern-matching application for searching through a database of molecules—the

sort of task that a drug company looking for the key to a particular molecular lock in a disease-causing protein might want to do routinely. The other was a scheduling application for assigning people to seats, subject to certain constraints. Airlines might be interested in that one.

The catch is that Orion is not exactly desktop friendly. It has to sit in a bath of liquid helium cooled to just a fraction of a degree above absolute zero (-273°C) in order to work. This is because it relies on a superconducting device called a Josephson junction to produce the qubits, in the form of specially tweaked electrons that are stable only at such low temperatures.

Impractical as this may sound, Geordie Rose, D-Wave's founder, is optimistic that it is the best way forward for quantum computing. Other techniques involve huge lumps of machinery, but Josephson junctions can be made using the sort of microfabrication technology employed for normal silicon chips. This means there is a realistic prospect of integrating quantum computers with conventional ones. Dr Rose favours this route, because he sees quantum computers as specialised accelerators for certain tasks, rather than stand-alone number crunchers.

Shrink-wrapped quantum computers labelled “Orion inside” are not, therefore, about to start shipping anytime soon. Quantum computing will be strictly mainframe for the foreseeable future. Nevertheless Dr Rose plans later this year to provide free, remote access to an Orion processor so that potential customers can try running their problems on it and evaluate its performance.

Whether D-Wave will do for southern British Columbia what Fairchild Semiconductor—the firm that made the first commercial integrated circuits—did for central California 50 years ago remains to be seen. The aspiration, however, was betrayed by D-Wave's choice of the Computer History Museum in Mountain View, near Fairchild's original home, to demonstrate Orion's potential. Come back in half a century to find out what happened.

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The origins of the Etruscans

Cowabunga!

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Tuscan cattle shed light on where the Etruscans came to Italy from

THE Etruscans have always been a perplexing people. The Romans, many of whose early kings were Etruscan interlopers, fought frequently with them and eventually defeated them. Since history is written by the winners, the Etruscans were written out of it—though even in ancient times the question of where their original homeland lay was a matter of intellectual debate. By the 18th century, though, when archaeology became a fashionable pastime for European gentlemen, the Etruscans had become so obscure that the new archaeologists found they could not even understand the inscriptions on the tombs in Etruria's numerous cities of the dead. These inscriptions were carved in an unknown alphabet, in a language that appeared to bear no resemblance to any previously known.

The mystery of where the Etruscans, and their non-Italian-like language, came from has puzzled researchers ever since. But a clue has recently been uncovered from an unlikely source: the local cattle. Writing in this week's *Proceedings of the Royal Society*, Paolo Ajmone-Marsan of the Catholic University of the Sacred Heart in Piacenza, Italy, and his colleagues conclude from the genetic make up of modern cattle in Tuscany (the part of Italy where the Etruscans lived) that these animals' ancestors came from the Middle East. By implication, the ancestors of their owners did, too.

Dr Ajmone-Marsan's conclusion was drawn by looking at the mitochondrial DNA of the cows in question. Mitochondria are small structures inside cells which convert the energy in glucose into a form that a cell's machinery can use. Since mitochondria are the descendants of free-living bacteria that shacked up with the ancestor of modern animals and plants about 2 billion years ago, they have their own genes, independent of the cell nucleus. That, plus the fact that only the mitochondria from the mother get into a new mammal (via the egg), makes mitochondrial DNA easier to track across the generations than the stuff in the nucleus.

Dr Ajmone-Marsan's team looked at DNA from 11 Italian breeds of cattle and compared them with genome-database records for cattle breeds from the rest of the world. They found that six of the 11 were more closely related to breeds from the Balkans, Anatolia and the Middle East than they were to other West European cattle. Moreover, four of these six breeds are known from historical records to have originated in Tuscany and eastern Liguria—in other words, the area occupied by the Etruscans.

Unfortunately, when you do the same trick on modern human Tuscans, the result is not so clear-cut. Some modern Tuscans have mitochondrial DNA that looks Middle Eastern. Others do not. But it seems as if Etruria's cattle, at least, are Levantine.

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Sleep and health

Nap your way to longer life

Feb 15th 2007
From The Economist print edition

Taking siestas may reduce the risk of heart attacks

SLOTH may be seen as a sin, but some of history's most accomplished men were fond of lounging around. Leonardo da Vinci enjoyed napping. So did Albert Einstein and Winston Churchill. Richard Buckminster Fuller advocated taking 30-minute naps every six hours. He is reported to have abandoned the practice only because “his schedule conflicted with that of his business associates, who insisted on sleeping like other men.”

No one has yet proved a correlation between napping and artistic brilliance or professional success, but an intriguing study published this week in the *Archives of Internal Medicine* claims to find a link between daytime siestas and good health. A team of researchers led by Androniki Naska of the University of Athens Medical School and Dimitrios Trichopoulos of Harvard's School of Public Health followed over 23,000 Greek patients with no history of coronary disease, cancer or stroke, for an average of six years. Their conclusion: napping just might save your life.

The study found that the group of adults who took siestas (defined as 30-minute naps) at least three times a week had a third fewer deaths from heart disease than an equivalent group who did not sleep at all during the day. The benefit was greater for men than for women. (Whether women benefited at all was hard to estimate as there were too few deaths among them during the course of the study.) It was also greater for working men than for those who had retired.

A number of previous studies done in the Mediterranean and in parts of Central America (where siestas remain common) have come up with conflicting results, but Dr Naska and Dr Trichopoulos argue that those studies have often been flawed. The subjects in some, for example, had survived heart attacks and may therefore have benefited more from napping than healthy individuals do.

Given that all of the subjects of this new study were Greek, could the much-celebrated Mediterranean diet deserve credit, rather than the siestas? The firm answer from Dr Trichopoulos is “No”. And he is in a good position to say so, for it was he who did the pioneering research that put olive oil and a plant-based diet on the scientific map in the first place. Unlike some other siesta studies, his was controlled for diet, smoking, exercise and other relevant variables. The earlier findings about the benefits of the Mediterranean diet are confirmed, he says, and napping seems to help on top of that.

Before buying a sofa for the office, however, it might be wise to consider the possibility of selection bias. Dr Trichopoulos concedes that “Type A” personalities, whose hard-working lives may make them prone to heart attacks, are also much less likely to take naps during the day. That bias might be skewing the study's results. Even so, he advises, “Take a nap if you can.”

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Biological clocks

Want to know the time? Ask a fungus

Feb 15th 2007
From The Economist print edition

Working out how biological clocks operate has been a hard graft. The results, though, may boost the new technology of synthetic biology

LIFE on Earth has evolved to take advantage of the speed at which the planet spins. Plants, for example, can harvest more light and thus out-do their competitors if they anticipate sunrise and get their photosynthetic machinery ready to capture early rays while it is still dark. But to have the system primed all the time would be a waste of effort, so they need to know exactly when to switch it on.

The metaphorical hands of the human clock also sometimes point to a purpose—such as feeling sleepy at bedtime. On other occasions, though, they are mysterious. People produce urine fastest at 6pm. They are most likely to develop an allergic reaction at 11pm. And 1am is prime time for pregnant women to go into labour.

Both plants and people are complex creatures, but even the simplest organisms seem to have internal clocks of one sort or another. And, on the principle of understanding the simple before going on to the complicated, a lot of the work on such clocks has been conducted on *Neurospora crassa*, a type of mould that produces bright-orange spores. One researcher for whom *Neurospora* is the simpleton of choice is Jonathan Arnold of the University of Georgia, in Athens. And as he reports in this week's *Proceedings of the National Academy of Sciences*, he and his colleagues believe they have more or less worked out how the molecular cogs that run this clock actually fit together.

At its core, a biological talent for timekeeping requires some sort of regular, chemical oscillation—the molecular equivalent of a pendulum's swing. The cells that are doing the timekeeping must first alter their chemistry in a predictable way, and then return in an equally predictable way to their original state.

In theory, this does not require much. Oscillating clocks can be put together with a chemical that acts to inhibit its own production, and a second chemical that delays this self-inhibition by a reliable amount. Taking that general principle and applying it to the genes and proteins that seem to help *Neurospora* keep time has not, however, been easy.

Frustrated by attempts to analyse what was happening using direct chemical analysis alone, Dr Arnold decided to employ an historical approach—and one from the history of physics, rather than biology. In the 19th century an Austrian physicist called Ludwig Boltzmann was studying the then-fashionable topic of gas behaviour. This was a time when the existence of atoms was not well established and the burning question was whether the behaviour of gases could best be explained if they really did exist. Boltzmann realised that knowing the temperature, volume and pressure of a boxful of gas was still not enough information for him to build a single model of what was going on. He therefore embraced all the models that fitted his data and found a way to pick between them using statistics.

Run silent, run deep

With a computer to help, Dr Arnold has done a similar thing to *Neurospora*'s endogenous clock. Though he has not come up with a final, definitive model, his “sub-models” have allowed him to assign probabilities to the likelihood of each element of a model being right.

He started with a small group of genes, a list of 25 chemical reactions that are known to happen and are thought to be relevant, and a few snapshots of how much of the various proteins and other molecules involved could be found in *Neurospora* cells at any one time. He plugged these data into the computer and asked it to generate all the possible genetic circuits that could account for these clues. Then he looked at

what he had.

Some common features emerged from the models. The substance that inhibits its own production in *Neurospora*'s clock was already known: it is a protein called Frequency. But the modelling predicted the way that the time delay is introduced, too. The regulator is a protein called WC-1. The models showed that WC-1 is made eight hours later than Frequency, and that Frequency takes around 16 hours (conveniently the remainder of a 24-hour period) to wind back up to its peak level.

Common features such as this suggest those parts of the circuitry are more or less certain. To check, though, Dr Arnold turned to his fungus. Unlike people, fungi offer few clues as to when they are asleep, so he and his colleagues instead measured the production of spores (which normally happens in daily bursts).

In the paper he has just published, Dr Arnold describes a strain of *Neurospora* that has been genetically altered so that the gap between the appearance of Frequency and the appearance of WC-1 is abnormal. The engineered form lost its internal oscillator and therefore stopped producing spores in spurts. The models were also successful in predicting how the amount of certain other proteins produced by the mechanism would vary hour by hour when the fungus was subjected to different artificial day lengths. Those predictions matched what was indeed measured for days with six, nine and 18 hours of light.

The underlying chemistry of biological timekeeping thus now looks clear—and it also looks likely from comparisons of their DNA that similar genes are involved in mammalian (and thus human) clocks.

In the same issue of the *Proceedings of the National Academy of Sciences*, Martin Fussenegger of the Swiss Federal Institute of Technology, in Zurich, and his colleagues concern themselves with how they might use this knowledge to manipulate the time-control mechanisms of mammal cells. They describe how they created a synthetic time-delay circuit using genes from a variety of species and plugged it into the ovary cells of Chinese hamsters, where it worked successfully. That might sound exotic, but such cells are routinely used by pharmaceutical companies to make protein-based drugs such as antibodies. Manipulating their clocks might therefore have commercial value.

Dr Fussenegger also imagines that his biochemical circuit could form a component of future gene therapies. At the moment, the genes inserted as part of such therapies are turned on at the appropriate time by the use of a drug. Hooking the therapeutic gene to a pre-programmed time-control system might make it possible to do away with those drugs. It might even allow gene therapy to tackle diseases that the technology is otherwise ill-suited to. Whether it will ever be employed for bladder control, though, remains to be seen.

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About sponsorship

The secret life of nuns

Veiled ambitions

Feb 15th 2007
From The Economist print edition

Far from being sidelined by society, Renaissance nuns enjoyed a life of considerable enjoyment, social standing and power

Nuns: A History of Convent Life
By Silvia Evangelisti

Oxford University Press; 301 pages; £17.99. To be published in America by Oxford University Press in May

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Alamy

THE very thought of nuns stirs up images of dark-panelled Victorian rooms, smells of polish and cooking cabbage, the swish of long black robes and the peculiar, creepy softness of holy voices. Silvia Evangelisti, who specialises unpromisingly in “gender history” at the University of East Anglia in England, presents a radically different and intriguing picture.

Her nuns, observed mostly in Europe in the 16th and 17th centuries, are independent, jolly, productive and determined. They never needed men anyway, and rejoiced in the only life that could give them a proper social standing outside marriage. (“A husband or a wall” were the alternatives.) They wrote, painted, put on theatrical shows, sang like angels and ran their own communities as competently as any male—so competently that if any bishop tried to saddle them with rules they did not like, they had a

good go at defying him.

Nor were convents dreary places. They were often sited next to palaces and catered for the elite. Noble girls were sent there because it was cheaper and easier than finding a husband for them: the dowry due was sometimes as little as one-tenth of the average marriage-portion in a wealthy house. The girls trooped in in crowds. In Florence, between 1500 and 1800, almost half of the female elite lived in convents; in Milan, three-quarters of the daughters of the aristocracy could be found with rosaries and wimples, piously enclosed.

But they lived in style. Convents, after all, were family affairs, with sisters, aunts and cousins all around. Nuns' rooms were meant to be spartan, with a hard bed and one devotional painting; but records show they also had tapestries, embroidered pillows, books and spinets and guitars, with en suite latrines and, in some cases, family coats-of-arms over the door. Nuns had their own servants, too, just as they had at home. They received visitors in the parlour; a painting of 1740 shows such a merry scene in one, with fruit-sellers and puppet-shows and children and dogs, that it is hard to tell which group, nuns or visitors, is on which side of the grille.

Because of their aristocratic connections, Ms Evangelisti argues, nuns had real power. They could lobby politicians and network with royals, despite enclosure. A thick glass ceiling made nuns subject not only to bishops and popes but to the supposedly superior firepower of male intellects. Even so, some dared to argue back: Arcangela Tarabotti, for example, scribbling in bed at night books called “Paternal Tyranny” and “Women are No Less Rational than Men”; or Juana Inés de la Cruz, who wrote 65 sonnets and 62 romances and, in 1691, an “Answer” to the Bishop of Puebla that dared to enter the theological lists with him.

Yet even women like Sister Juana, who kept a library in her cell and whose heavy-browed stare still challenges the world to explain itself, were subject to male spiritual advisers. Under their direction nuns kept diaries of ecstasies and prayer, or sometimes painted their visions directly onto canvas. More often than not, in the name of spiritual humility, they were then ordered to destroy what they had done.

That fact accounts in part for the absence from this book of the inner lives of nuns; but it does not wholly explain it. Ms Evangelisti seems uninterested in that side of things. She likes the social, political and cultural whirl; but it was the sealed quiet of the cell that made the real world of these women, and the reader is hardly ever there.

Nor does this book deal much with resistance. A life of enclosed virginity is not natural, and many were forced into it, with their hair cropped short and the door slammed behind them. Some no doubt adjusted and thrived; others did not. Deprived of loving human company, they were supposed to talk instead to medallions of Christ on their breasts. Robbed of the chance to be mothers, they would dress and dandle “Jesus dolls”. In the wilds of Canada an Ursuline nun lamented that native Indian girls, brought into the convent to learn French and wear long dresses, would scale the fence “like squirrels” and run off into the woods. One wonders how many of Ms Evangelisti's feisty, empowered, intelligent nuns secretly longed to do the same.

Nuns: A History of Convent Life.
By Silvia Evangelisti.
Oxford University Press; 301 pages; £17.99. To be published in America by Oxford University Press in May

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Sacked executives

The incredible bouncing boss

Feb 15th 2007
From The Economist print edition

COMPANY bosses are being fired in record numbers nowadays. In some ways this is not the disaster for them that being axed is for the rest of humanity, as the chances are they have been paid well enough to have saved plenty of money. Indeed, many of them will collect a large “golden parachute” payment with their redundancy letter. Yet the psychological blow caused by dismissal may be far more devastating to the formerly lionised—now unwanted—corporate leader than it is to mere mortals.

The good news is that having been fired, a boss can come “firing back”, according to a well-timed new book by Jeffrey Sonnenfeld and Andrew Ward on how executives recover from career disasters. Having previously written about the ending of great careers in “The Hero's Farewell”, Mr Sonnenfeld, who runs the Yale Chief Executive Leadership Institute, has decided that the time is ripe for a message of hope for fallen bosses everywhere.

How to rebound from failure is not a subject much addressed in business schools, he laments, despite their growing obsession with teaching leadership. After all, this is a subject about which the most scholarly tome, until now, has arguably been the 1997 bestseller, “Trump: The Art of the Comeback”, by Donald Trump, a tycoon-turned-TV-star whose career has more bounce in it than even his coiffure. (Ironically, his most famous line in “The Apprentice” is “You're fired!”)

Firing Back: How Great Leaders Rebound After Career Disasters
By Jeffrey A. Sonnenfeld and Andrew Ward

Harvard Business School Press; 320 pages; $29.95 and £18.99

Buy it at
Amazon.com
Amazon.co.uk

Mr Trump's story is told again in “Firing Back”, along with those of a cast of characters, ranging from jailbirds, such as Martha Stewart and Michael Milken, to ousted Wall Street bankers, such as Jamie Dimon and John Mack (who have bounced back to be heads of JPMorgan Chase and Morgan Stanley, respectively).

To make the fundamental point that failure, however catastrophic, need not be the end, the authors draw from a deep well of wisdom, quoting everyone from Jesus Christ and Michel Foucault to Friedrich Nietzsche—“What does not destroy me, makes me stronger”—and a British anarchist rock band, Chumbawamba. At times, the quotations come so thick and fast that by the time the reader meets Rudyard Kipling's two impostors, Triumph and Disaster, and treats them just the same, it feels a bit like reading one of those desk calendars full of aphorisms.

“Firing Back” is saved from cliché by its insider's view—the authors have clearly gained the confidence of many bosses who would normally keep their struggles to themselves or a therapist—and by some worldly advice, in sharp contrast to the content-free blandishments of most business books.

There is a five-point plan, which begins with “fight not flight”: it is crucial not to become so preoccupied with coping with failure that you fail to pursue a new career seriously. The story is told of how Mr Dimon decided to seek out his former mentor, Sandy Weill, who had fired him from Citigroup, a year later. “I wanted to get this event behind me so I could move on. I made my own mistakes. I acknowledged I was partly to blame.”

The ousted boss also needs to “rebuild heroic stature”, prove his mettle to regain credibility and rediscover his “heroic mission”. Much of this boils down to reputation management. Despite Mr Dimon's admirable private candour, the authors urge executives to devise a plausible narrative about their failure that includes “clearly denying culpability, shifting responsibility for the mishap, reducing the offensiveness of the act, giving the appearance of reasonable behaviour and offering acceptable

motives.” Head-hunters may be a more important audience for this story than intimates or the broader public. Some sources of failure are better than others: get fired during a merger, a political clash or over a strategic disagreement, and you have a two-thirds chance of returning to corporate leadership within two years. Best avoid being sacked for poor performance, unacceptable personal conduct or illegal behaviour, however.

The role of friends in helping the boss bounce back is particularly important. A broad network of acquaintances helps find new jobs, but only close friends can provide essential moral support. Kenneth Langone, a financier, emerges as a particularly fine friend, using his own rebound from regulatory troubles to inspire several other fallen bosses, with his catchphrase, “You've just been kicked in the ass with a golden horseshoe.”

It was Mr Langone who urged Richard Grasso to fight charges related to his time as chairman of the New York Stock Exchange. He also encouraged Robert Nardelli to bounce back after he was passed over as successor to Jack Welch at General Electric. Mr Nardelli got a chance at the second act that F. Scott Fitzgerald said did not happen in America by becoming chief executive of Home Depot. Alas, last month, after the book went to press, Mr Nardelli lost that job (despite being paid something like $125m since 2000). Perhaps this book will help him on to a third act.

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Terrorist techniques

Wheels within wheels

Feb 15th 2007
From The Economist print edition

THE car bomb, whether guided by a suicidal driver or not, is a common fact of modern life. Its effects have been felt across the world—in Palestine in the 1940s, Algeria and Vietnam in the 1960s, Northern Ireland in the 1970s, Lebanon and Sri Lanka in the 1980s, and America in the 1990s. Since the September 11th 2001 attacks on America (a horribly scaled-up version of the car-bomb technique of using an everyday mode of transport as a weapon) car bombs have become even more commonplace in Iraq and Afghanistan.

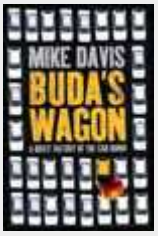
Where did it all start? Mike Davis, a left-wing American historian, traces the origins of the car bomb not to Belfast or Beirut, but to New York. On September 16th 1920, he recounts, an Italian anarchist named Mario Buda drove a horse-drawn cart to the corner of Wall Street and Broad Street, close to the offices of JPMorgan. As he disappeared into the crowd, the wagon, which was packed with explosives, blew up, killing 40 people. The blast left a field of shattered masonry, metal shards, glass splinters—and countless green banknotes abandoned by a hapless bank messenger.

EPA

Cars as carnage

This was a seminal moment, in the view of Mr Davis, when “a poor immigrant with some stolen dynamite, a pile of scrap metal and an old horse had managed to bring unprecedented terror to the inner sanctum of American capitalism.”

Buda's Wagon: A Brief History of the Car Bomb
By Mike Davis



Verso; 192 pages; $22.95 and £12.99

Buy it at
Amazon.com
Amazon.co.uk

The story of Buda's device is one of the few interesting anecdotes in an otherwise dull and flawed book. Much of Mr Davis's account of the “poor man's air force” is a catalogue of explosions, with little explanation of their historical or political context. He has an eye for a catching quote or a moving description, but too much of the book reads like a cut-and-paste job. His sermonising about the car bomb being “an inherently fascist weapon” (though not as fascist, he says, as the “mass terror” inflicted on civilians by Western air forces) is irrelevant.

Almost from the start, Mr Davis undermines the case for Buda to be regarded as the great-grandaddy of Hizbullah, the IRA and the many other car bombers of modern history. He says Buda may have been inspired by the horse-cart bomb that came close to killing Napoleon in 1800. So why not start the story in Paris?

Perhaps because the “infernal machine” detonated on the rue Saint-Nicaise does not fit as neatly into Mr Davis's narrative that America is to blame for much of the carnage. He argues, unconvincingly, that many if not most of the exploding cars of the past 80 years are either a reaction to injustices by America (or allies such as Israel) or are carried out with their connivance. In some cases, they are “blowback” from past American actions, such as supporting the Afghan mujahideen against the Soviet Union. “Ironically the classical ‘weapon of the weak’ is also the most popular clandestine instrument of terror employed by strong governments and superpowers,” he claims.

The trouble with writing about car bombs is that the bombers are often anonymous or dead, allowing for various interpretations of events. Mr Davis tends to be conspiratorial and anti-American, though he presents little to support his view. The author, who made his name writing about Los Angeles and the environment, is right in one respect, though: the car bomb has “a brilliant future”.

Buda's Wagon: A Brief History of the Car Bomb.
By Mike Davis.
Verso; 192 pages; $22.95 and £12.99

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The first world war

Germany's African epic

Feb 15th 2007
From The Economist print edition

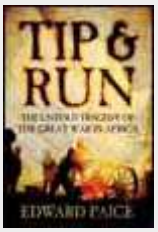
MEASURED by scale, dreadfulness or daring, the German campaign in east Africa from 1914 to 1918 can hardly be beaten. Over a vast territory, a small German colonial force, under the extraordinary leadership of General Paul Emil von Lettow-Vorbeck, outsmarted the combined forces of the British, Portuguese and Belgian empires, from the beginning of the war to beyond its end.

By attacking Northern Rhodesia they invaded British territory, the only German forces to do so in the whole war. They improvised everything from artillery (using salvaged naval guns) to quinine (known as Lettow-schnapps). Their opponents carried a disassembled steamer in crates across Africa in order to outgun them on Lake Tanganyika.

It came at a terrible cost. The few soldiers who fought in both Europe and Africa thought the latter far worse. All sides treated Africans abominably. Of 1m porters recruited by the British, 95,000 died. German looting and raiding caused at least 300,000 civilian deaths. Many native casualties simply went uncounted.

This extraordinary story has already been well told in fiction, such as “The African Queen” by C.S. Forester and William Boyd's “An Ice-Cream War”.

Tip & Run: The Untold Tragedy of the Great War in Africa
By Edward Paice



Weidenfeld & Nicolson; 488 pages; £25

Buy it at
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Those longing to know every detail of the military campaign will be well-served by Edward Paice's comprehensive history of the war. Others may find it frustrating that the human drama and detail are obscured by a relentless focus on military minutiae and an unfortunate propensity to repeat facts. By the middle of the book the reader feels lost in a seemingly endless wasteland of skirmishes and forced marches. The inadequate maps do not help make sense of the many unfamiliar place names.

But even the author's plodding prose cannot obscure the exciting bits. German efforts to resupply the beleaguered protectorate in east Africa were audacious. The final attempt counts as one of the great feats of early aviation. In 1917 a Zeppelin got as far as Khartoum before turning back—apparently having been tricked by a bogus radio message sent by the British. Yet this astonishing story is crammed into four pages and is missing from the index.

Most annoyingly, the author is inexplicably timid about giving details of personality and character. The retired General Kurt Wahle, who served throughout the campaign (he was visiting his son when war broke out), is described as the oldest combatant of the war—but his age is not given. No proper picture of General von Lettow-Vorbeck is provided, and all details of his private life (was he married?) are omitted. So too is the fact that his admiring British opponents not only invited him to a dinner in 1929, but after the second world war got together to pay him a pension.

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By Edward Paice.
Weidenfeld & Nicolson; 488 pages; £25

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Poetic inspiration

A Byzantine journey

Feb 15th 2007
From The Economist print edition

BACK in the days when John Ash was a rising English poet of the New York School, critics either loved his stiletto wit or loathed it as “camp disdain”. Mr Ash's new book, “The Parthian Stations”, shows how a decade of living in Istanbul, studying the heritage of Byzantium and travelling in the Middle East has sharpened both his eye and the claws of his feline black comedy. Meanwhile, any disdain he may have felt in the past at the politics he observes around him has matured into a deep and incisive anger.

“The Parthian Stations”—named after a caravan route between the Mediterranean and India that was described by a Basra geographer in the 1st century BC—displays Mr Ash's talent for integrating contemporary Middle Eastern events into a classic English poetic frame. He condemns the ruler of Syria, for instance, for retaining the holes made by bullets fired during the 1982 Hama massacre—and then building a hotel on the bulldozed remains of the ancient city centre.

> Out of crushed bones and corrupted
> flesh a white, pyramidal hotel
> rose in balconied stages. Cursed.

The Parthian Stations
By John Ash

Talisman House; 96 pages; $12.95.
To be published in Britain by Carcanet in April

Buy it at
Amazon.com
Amazon.co.uk

When Mr Ash's 2004 collection, “To the City”, came out, *Poetry*, a leading American literary magazine, said that he “could be the best English poet of his generation”. Now he may also be the doyen of a new “Istanbul School”.

Several English-speaking poets are publishing work that, like Mr Ash's, use the city as a vivid background against which to weave together themes of East and West. There is the easy fluidity of Sidney Wade of Florida, the wry melancholy of Mel Kenne of Texas and the keen eye of Alabama's late Daniel Pendergrass for the theatre of the streets. James Wilde, a Canadian, writes savagely of war, Edward Foster pens gay odes and George Messo, an Englishman, is working on an epic.

By day, many of these poets teach English in Turkey's burgeoning private colleges. Some meet regularly, others share a new literary periodical and two recently produced a Turkey supplement for the *Atlanta Review*. Several translate Turkish verse into English. Turkish respect for poetry goes back to Ottoman times, when, according to Walter Andrews, a translator, “almost everyone, from the ruler to the peasant, from the religious scholar to the rake and drunkard, aspired to be a poet.”

Tony Frazer, whose Shearsman Books is one of a number of publishers now interested in poems about Turkey, believes that the country exerts a unique and powerful influence. He gives the counter-example of expatriate British and American poets in Germany, who “might as well be in Leicester or Peoria for all the impact that Germany has had on their work.”

The son of a schoolteacher, Mr Ash, 58, lived until 20 years ago in his hometown, Manchester. Just as he was achieving recognition in Britain he left for America as a protégé of John Ashbery, a leader of the avant-garde New York School.

In his new book, Mr Ash writes that he moved to Istanbul partly to be in a land of Muslim calls to prayer, “to shuck responsibility, to imagine I was not Western, not Christian and free.” He found a new patron, Selçuk Altun, a Turkish banker-turned-novelist who supported him for three years. Istanbul recalls Paris of a century ago, a place where expatriate writers can find liberty, affordable living and exotic surroundings. However, Mr Ash, who likes to sip aniseed-flavoured raki instead of absinthe, rejects the comparison. “I just like cities on the verge of chaos,” he says. “Istanbul was one of the few places that

wouldn't seem boring after New York.”

His book is by turns autobiographical and whimsical. The narratives are accessible, whether meditating on the spontaneity with which he writes or on the sudden death of his sister. Above all, Mr Ash engages with Istanbul, the former Constantinople—“an antechamber of Asia a place of distances and perspectives”.

A voracious reader, with a passion for Byzantine history, Mr Ash takes a long (and not altogether favourable) view of America's role in the region's conflicts.

> The auguries, the inaugurations
> Proceed at vast expense, banquet after banquet.
> A fire of the mind is invoked, and this is what
> We must live with as the century raises itself
> On crippled limbs to proclaim victory.
> Neither Alexander nor Trajan combined
> Such arrogance with ignorance
> But, in the end, what difference does it make?
> Persepolis burned, and Fallujah is emptied.

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By John Ash.
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New York architecture

Calling Mr Caro

Feb 15th 2007
From The Economist print edition

As New York re-evaluates Robert Moses, his biographer weighs in

ROBERT CARO is rarely the underdog. He has won virtually every literary prize in America, from the Pulitzer to the National Book Award. But as Mr Caro took the stage to give a lecture in New York on February 11th, he was in the unusual role of besieged author.

Mr Caro was speaking about Robert Moses. The master builder who shaped New York between 1924 and 1968 was the subject of Mr Caro's first book, “The Power Broker” (1974). His portrait of the idealist-turned-tyrant had stood unchallenged. Then, on January 31st, an exhibition opened that reconsiders Moses's legacy.

“Robert Moses and the Modern City” contends that Moses, although a bully, is undervalued. Hilary Ballon, the Columbia University professor who curated the show, says New York has thrived thanks to Moses, whose works included 627 miles (1,009km) of roads and 658 playgrounds. The exhibition also places Moses in his national context and then cuts him down to size. Far from omnipotent, he was a bureaucrat adept at defying federal and local restrictions.

The show has proved controversial. Mr Caro has been mostly left out of the debate. He was not invited to speak at a symposium on Moses, nor was he asked to write a paper for a Moses conference. The lecture was his one chance to have his say on the topic.

Mr Caro largely ignored the new theories about Moses. The show presents him as a master implementer; Mr Caro painted the young Moses as an artistic genius who made bathhouses rise from the dunes of Jones Beach. And whereas the exhibition highlights Moses's ability to build within a system of constraints, Mr Caro used his speech (as he did his book) to tell how Moses wielded his power over the powerless.

Before an audience of nearly 900, Mr Caro described the Moses of the 1950s and 1960s, who cleared slums and drove highways through neighbourhoods, uprooting some 500,000 people. He remembered his own visits to East Tremont, which Moses's Cross Bronx Expressway transformed from a thriving community into a dangerous slum. The exhibition tries to convey the human toll of Moses's work, but no one can do it as well as Mr Caro, who spent seven years interviewing those swept aside by the builder's hand.

Rewriting history is hardly a seamless process, particularly if the historian one is trying to topple is as eloquent as Mr Caro. His stories about the ruin of East Tremont highlighted one of the exhibition's more awkward claims. Surely Moses's treatment of displaced tenants cannot be excused by saying other cities were equally eager with the bulldozer. It was Moses who inspired other cities.

With New York in the midst of a building boom, it was time to reassess Moses. The problem of how to build big projects in a city is as thorny as ever. The exhibition asks the vital question of how New York can live up to Moses's triumphs while avoiding his mistakes. It is bizarre to push Mr Caro to the margins of this debate. As he reminds us, Moses never lacked big ideas. What he lacked was a reverence for the community.

“Robert Moses and the Modern City: Slum Clearance and the Superblock Solution” is at the Miriam & Ira D. Wallach Art Gallery, Columbia University, New York, until April 14th. “Robert Moses and the Modern City: Remaking the Metropolis” is at the Museum of the City of New York, until May 28th. “Robert Moses and the Modern City: The Road to Recreation” is at the Queens Museum of Art, New York, until May 27th

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About sponsorship

Anna Nicole Smith

Feb 15th 2007
From The Economist print edition

Anna Nicole Smith, a peculiarly modern celebrity, died on February 8th, aged 39

AP

NAMES were a problem for Anna Nicole Smith. She was born Vickie Lynn Hogan, but never liked it. At high school, before she was kicked out for fighting, she went by Nikki Hart. As a model for Guess jeans in 1992 she was called “Anna Nicole”, and settled for that; later she acquired the title “Gold-digger”, though she indignantly rebuffed it. “Vickie always wanted a different name,” her aunt said. The name she really wanted, from childhood onwards, was Marilyn Monroe.

Yet all this was somewhat beside the point; because what you saw first, on meeting Ms Smith, were the Breasts. There were only two of them, but they made a whole frontage: huge, compelling, pneumatic. They burst out of tight red dresses—preferably red—or teased among feather boas, or flanked a dizzying cleavage that plunged to tantalising depths. These were celebrated, American breasts, engineered by silicon to be as broad and bountiful as the prairie. With them, a girl from nowhere—or from Houston, Texas—could do anything. The body behind them waxed and waned, sometimes stout as a stevedore's and sometimes almost waif-like, matching the little-girl voice; but the Breasts remained. “Everything I have”, Ms Smith admitted, “is because of them.”

“Did you have breast augmentation?” asked Larry King redundantly, bow tie a-quiver, when she appeared on his show. “Up or down?” “Both.” “Aren't there downsides to it?” Yes, Ms Smith said; they hurt her back. But, she might have added, it did no harm to flaunt them in gentleman's clubs in Houston in the half-dark, where ancient oil tycoons would try to grapple them. One such withered specimen, with a twinkle in his rheumy eye, made the attempt in October 1991; three years later, she married him.

J. Howard Marshall was not the first. That was Billy Wayne Smith, whom she married when she was 17 and he was 16, he the cook and she a waitress at Jim's Krispy Fried Chicken in Mexia, Texas. They had a son, but the marriage didn't last. To make ends meet, Ms Smith worked at Wal-Mart, danced topless and slipped naked photos of herself in the post to *Playboy*, hoping to be noticed. She was. By the time she and Marshall tied the knot at the White Dove drive-thru Wedding Chapel—he 89, she 26, the Breasts barely contained in white satin—Ms Smith had become *Playboy*'s Playmate of the Year 1993. In her questionnaire she confirmed she wanted to be the new Marilyn, and in a dozen ways, from the blonde curled hair to the bright red lips to the gorgeous pouts and poses, she was.

She acted too, though it was the Breasts that stole every scene, full in Leslie Nielsen's astonished face in “Naked Gun 33 1/3”. The spotlight loved her, but unlike Marilyn she was not favoured by high-flying

politicians; there was always too much of the tabloid queen about her, besides her tendency to start slurring and stumbling and writhing, as if on something illegal, in the presence of a microphone. Her fame came, in the end, from being in court.

Prozac and Sugar Pie

The case of *Marshall v Marshall*, a name suitably Dickensian, started almost as soon as Marshall died in 1995. It had been a brief, strange marriage, with Ms Smith hardly ever at home. Each evening she would telephone him after seven, his bedtime; he called her his “sleeping pill”. Outsiders imagined that she was simply waiting for his money. But when his will was read, he had left her nothing.

She was sure this was wrong. While alive, he had given her cars, a little ranch and $50,000 a month; orally, she claimed, he had also promised her half of his estate of $1.6 billion. Without it, she was bankrupt. Over a decade various courts found for her, then against her. In 2004 an appeals court ruled that Ms Smith should get nothing. But in 2006 the Supreme Court, no less, said she could go on fighting.

By then her life revolved round the case. She told Larry King she did nothing else, and her reality TV show, which ran from 2002 to 2004, suggested the same. The show followed her to the dentist and to the lingerie shop; trailed Bobby Trendy, her decorator, as he continually redesigned her bedroom; and watched as she gave Prozac to her poodle, the oversexed Sugar Pie. Her lawyer, Howard Stern, was so constantly in the frame that in 2006 she married him, on the catamaran *Margaritaville* off the Bahamas, before tumbling fetchingly in her white veil into the surf.

Americans watched and enjoyed it all; and were also aware, like gawkers driving past the scene of an accident, that they might at any moment witness something awful. The story of poor-girl-makes-good was never quite straight, the fame never without its tawdry side, the money never reliably there, the behaviour rarely unembarrassing. In later years, Ms Smith was seen more and more in black. She often looked beautiful in it, but seldom happy.

Within three days last September she had a daughter, Dannielynn, by no certain father, and lost her son Daniel, at 20, to an accidental overdose of methadone and anti-depressants. Five months later she was dead herself, of causes still unknown, after collapsing in her hotel room at an Indian casino in Hollywood, Florida. She was far from the real Hollywood; yet not so far, in her young, lonely death, from the great name she had most longed to be.

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Overview

Feb 15th 2007
From The Economist print edition

Japan's GDP grew by 1.2% in the fourth quarter of 2006, an annualised pace of 4.8%. This strong performance was largely a rebound from the weak previous quarter, when GDP grew by only 0.1%.

The recovery in the **euro area** is gathering momentum. GDP rose by 0.9% in the fourth quarter, a 3.3% increase on a year earlier. In 2006 as a whole GDP rose by 2.7%.

The Federal Reserve expects **America** to grow by 2.5-3% this year and by 2.75-3% next, according to its semi-annual report to Congress. It does not foresee much trouble in the job market, projecting unemployment of 4.5-4.75% this year and next. Core inflation—measured by the price index for personal consumption expenditures excluding food and energy—is expected to be 2-2.25% this year, and to fall to 1.75-2% in 2008.

America's trade deficit in goods and services unexpectedly widened to $61.2 billion in December, largely because of a surge in imports. This may mean that the first estimate of fourth quarter GDP is revised down.

Consumer prices in **China** rose by 2.2% in the year to January.

In **Britain** consumer prices rose by 2.7% in the year to January, less than the 3% rise in the year to December.

In its latest country report, the OECD commends **Sweden** on its macroeconomic performance (see article). GDP growth probably topped 4% last year.

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About sponsorship

Output, prices and jobs

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From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2006†	2007†	latest	latest	year ago	2007†	rate‡, %
United States	+3.4 Q4	+3.5	+3.4	+2.6	+3.0 Dec	+2.5 Dec	+3.4	+1.9	4.6 Jan
Japan	+2.1 Q4	+4.8	+2.1	+1.9	+4.8 Dec	+0.3 Dec	–0.4	+0.4	4.1 Dec
China	+10.4 Q4	na	+10.5	+9.6	+14.9 Nov	+2.2 Jan	+1.9	+2.4	9.8 2006
Britain	+3.0 Q4	+3.2	+2.7	+2.5	+0.5 Dec	+2.7 Jan**	+1.9	+2.2	5.5 Dec††
Canada	+2.5 Q3	+1.7	+2.8	+2.3	–2.2 Nov	+1.6 Dec	+2.2	+1.7	6.2 Jan
Euro area	+3.3 Q4	+3.6	+2.7	+2.0	+4.0 Dec	+1.9 Jan	+2.4	+2.0	7.5 Dec
Austria	+3.2 Q3	+3.6	+3.1	+2.5	+5.6 Nov	+1.5 Dec	+1.6	+1.7	4.6 Jan
Belgium	+3.1 Q3	+2.5	+2.7	+2.1	+3.5 Dec	+1.7 Jan	+2.6	+1.9	11.7 Dec‡‡
France	+1.9 Q3	nil	+2.0	+2.0	+0.7 Dec	+1.5 Dec	+1.5	+1.4	8.6 Dec
Germany	+3.7 Q4	+3.5	+2.6	+1.7	+5.5 Dec	+1.6 Jan	+2.1	+2.1	9.5 Jan
Greece	+4.4 Q4	na	+4.1§	+3.5§	+3.1 Dec	+2.7 Jan	+3.2	+2.8§	8.3 Q3
Italy	+2.9 Q4	+4.6	+1.8	+1.3	+5.0 Dec	+1.7 Jan	+2.2	+1.9	6.8 Q3
Netherlands	+2.7 Q4	+2.6	+2.8	+2.5	+5.6 Dec	+1.4 Jan	+1.3	+1.8	5.0 Jan††
Spain	+4.0 Q4	+4.5	+3.7	+3.0	+4.2 Nov	+2.7 Dec	+3.7	+2.6	8.5 Dec
Czech Republic	+5.8 Q3	+5.6	+6.0	+5.0	+3.0 Dec	+1.3 Jan	+2.9	+2.7	7.9 Jan
Denmark	+3.2 Q3	+2.9	+3.5	+2.4	+0.6 Dec	+1.8 Jan	+2.1	+1.9	3.9 Dec
Hungary	+3.2 Q4	+3.2	+3.8	+2.3	+14.0 Dec	+7.8 Jan	+2.7	+6.5	7.5 Dec††
Norway	+2.6 Q3	+5.2	+2.5§	+2.3§	–2.0 Dec	+1.2 Jan	+1.8	+2.6§	2.9 Dec††
Poland	+5.8 Q3	na	+5.6	+5.0	+5.7 Dec	+1.4 Dec	+0.7	+2.0	14.9 Dec‡‡
Russia	+6.5 Q3	na	+6.7	+6.6	+1.9 Dec	+8.0 Jan	+10.6	+8.3	6.9 Dec‡‡
Sweden	+4.4 Q3	+4.1	+4.6	+3.5	+10.3 Dec	+1.9 Jan	+0.6	+1.8	5.3 Jan‡‡
Switzerland	+2.4 Q3	+1.5	+2.7	+2.0	+8.2 Q3	+0.1 Jan	+1.3	+0.9	3.3 Jan‡‡
Turkey	+3.4 Q3	na	+5.3	+4.3	+2.5 Dec	+9.9 Jan	+7.9	+7.8	9.1 Q3‡‡
Australia	+2.2 Q3	+1.2	+2.5	+2.8	+0.9 Q3	+3.3 Q4	+2.8	+2.9	4.5 Jan
Hong Kong	+6.8 Q3	+14.8	+6.6	+5.2	–0.6 Q3	+2.3 Dec	+1.3	+2.6	4.4 Jan††
India	+9.2 Q3	na	+8.6	+7.9	+11.1 Dec	+6.9 Dec	+5.6	+5.5	7.6 2006
Indonesia	+5.5 Q3	na	+5.4	+6.0	+24.2 Nov	+6.3 Jan	+17.0	+6.4	10.3 2005
Malaysia	+5.9 Q3	na	+5.9	+5.3	+6.3 Dec	+3.1 Dec	+3.5	+2.5	3.1 Q3
Pakistan	+6.6 2006§§	na	+6.2§	+6.6§	+6.8 Sep	+6.6 Jan	+8.8	+7.0§	na
Singapore	+6.6 Q4	+7.9	+7.7	+5.0	+5.1 Dec	+0.8 Dec	+1.3	+1.3	2.6 Q4
South Korea	+4.0 Q4	+3.4	+5.0	+4.4	+2.3 Dec	+1.7 Jan	+2.2	+2.4	3.3 Jan
Taiwan	+5.0 Q3	na	+4.4	+4.0	–1.7 Dec	+0.4 Jan	+2.7	+1.4	3.9 Dec
Thailand	+4.7 Q3	+6.0	+4.8	+4.5	+7.0 Dec	+3.0 Jan	+5.9	+2.8	1.2 Nov
Argentina	+8.7 Q3	+10.8	+8.4	+6.9	+3.8 Nov	+9.7 Jan	+12.1	+10.0	10.2 Q3‡‡
Brazil	+3.2 Q3	+1.4	+2.7	+3.2	+2.8 Dec	+3.0 Jan	+5.7	+3.7	8.4 Dec‡‡
Chile	+2.9 Q3	–0.2	+4.2	+5.2	+1.2 Dec	+2.8 Jan	+4.1	+2.8	6.0 Dec††††
Colombia	+7.7 Q3	+8.1	+6.5	+5.0	+17.4 Oct	+4.7 Jan	+4.6	+4.0	11.0 Nov‡‡
Mexico	+4.6 Q3	+4.1	+4.8	+3.4	+1.6 Dec	+4.0 Jan	+3.9	+3.8	3.5 Dec‡‡
Venezuela	+10.2 Q3	na	+9.7	+5.8	+12.2 Sep	+18.4 Jan	+13.1	+16.8	10.1 Q3‡‡
Egypt	+7.1 Q3	na	+6.5	+6.1	+4.0 2005	+12.4 Dec	+3.1	+8.4	10.9 Q2‡‡
Israel	+4.6 Q3	–1.1	+4.7	+4.5	+13.2 Nov	–0.1 Dec	+2.4	+1.0	8.3 Q3
Saudi Arabia	+5.3 2006§	na	+5.3§	+5.4§	na	+2.8 Nov	+1.1	+2.0§	na
South Africa	+4.5 Q3	+4.7	+4.7	+4.3	+5.0 Dec	+5.8 Dec	+3.6	+5.2	25.6 Mar‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+11.6 Q3	+11.7	+10.7§	+8.9§	+5.7 Dec	+5.1 Jan	+4.7	+3.8§	4.5 Nov
Finland	+5.8 Q3	+3.6	+4.5§	+2.7§	+5.8 Dec	+2.3 Jan	+0.8	+1.9§	7.3 Dec
Iceland	+0.3 Q3	+0.4	+3.7§	+0.7§	na	+7.4 Feb	+4.1	+5.4§	1.1 Nov‡‡
Ireland	+7.7 Q3	+10.8	+5.8§	+5.3§	+17.0 Dec	+4.9 Dec	+2.5	+3.4§	4.5 Jan
Latvia	+11.9 Q4	na	+10.8§	+8.0§	+0.7 Nov	+7.1 Jan	+7.5	+5.2§	6.2 Nov
Lithuania	+6.6 Q4	+6.6	+7.3§	+6.5§	na	+4.5 Dec	+3.0	+4.4§	5.7 Dec
Luxembourg	+5.4 Q3	+4.1	+5.5§	+4.3§	+3.8 Oct	+2.3 Dec	+2.5	+1.8§	4.8 Dec‡‡
New Zealand	+1.3 Q3	+1.0	+1.9§	+1.8§	–1.4 Q3	+2.6 Q4	+3.1	+3.0§	3.7 Q4
Peru	+6.9 Nov	na	+7.3	+5.8	+3.0 Nov	+0.6 Jan	+1.9	+1.6	7.5 Dec‡‡
Philippines	+4.8 Q3	+1.3	+5.4	+5.5	–19.2 Oct	+3.9 Jan	+6.7	+4.7	8.0 Q3‡‡
Portugal	+1.5 Q3	–0.6	+1.2§	+1.4§	+3.2 Dec	+2.5 Dec	+2.6	na	7.4 Q3‡‡
Slovakia	+9.5 Q4	na	+7.5§	+6.1§	+9.8 Nov	+3.0 Jan	+4.1	na	12.3 Nov
Slovenia	+5.6 Q3	na	+4.5§	+4.0§	+4.2 Dec	+2.7 Jan	+2.4	na	8.6 Nov‡‡

*% change on previous quarter, annual rate. †The Economist poll. ‡National definitions. §Economist Intelligence Unit estimate/forecast. **RPI inflation rate 4.2% in Jan. ††Latest three months. ‡‡Not seasonally adjusted. §§Year ending June.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity price index

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The Economist commodity-price index

2000=100

	Feb 6th	Feb 13th*	% change on one month	% change on one year
Dollar index				
All items	182.9	185.3	+0.8	+19.2
Food	155.5	157.8	+1.0	+15.9
Industrials				
All	218.3	221.0	+0.7	+22.3
Nfa†	155.0	156.6	+3.1	+6.5
Metals	252.8	256.2	–0.1	+28.8
Sterling index				
All items	140.9	144.7	+1.7	+6.1
Euro index				
All items	130.6	131.7	+0.2	+8.7
Gold				
$ per oz	653.05	664.15	+6.3	+22.1
West Texas Intermediate				
$ per barrel	59.07	58.94	+14.9	–0.9

*Provisional †Non-food agriculturals.

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Sweden

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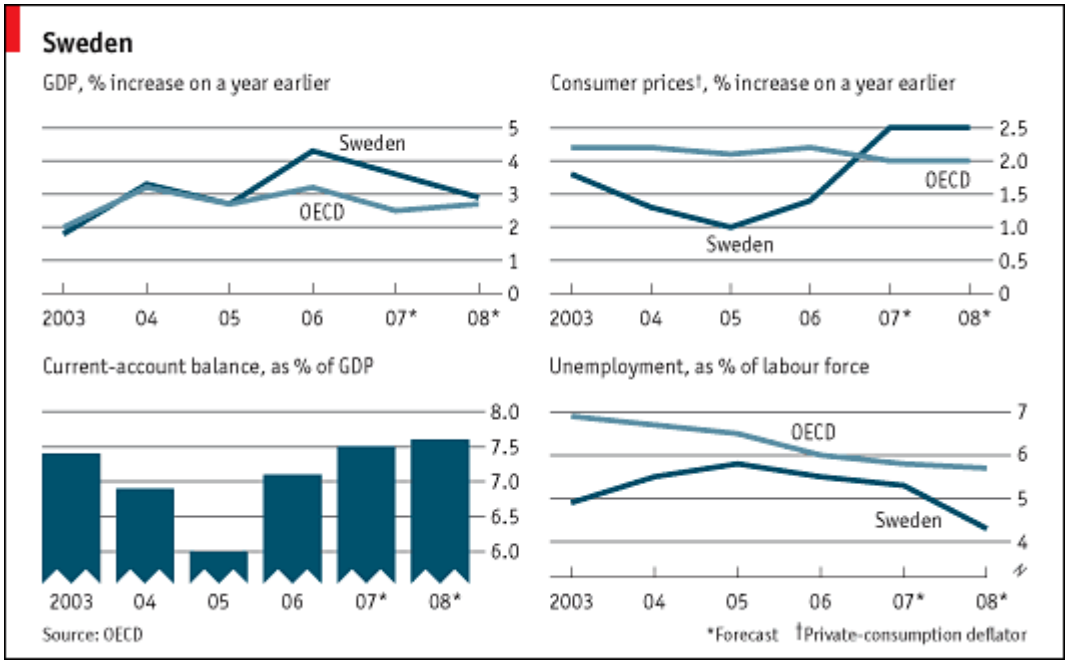

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Trade, exchange rates, budget balances and interest rates

Feb 15th 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†	Currency units, per $ Feb 14th	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−836.1 Dec	−880.3 Q3	−6.1	–	–	−2.2	5.17	4.74
Japan	+79.6 Nov	+170.4 Dec	+3.8	121	117	−4.8	0.40	1.72
China	+183.5 Jan	+160.8 2005	+7.0	7.76	8.05	−1.6	2.90	3.13
Britain	−155.3 Dec	−69.7 Q3	−2.8	0.51	0.57	−2.7	5.52	4.94
Canada	+47.2 Dec	+28.9 Q3	+1.1	1.17	1.15	0.8	4.18	4.16
Euro area	−15.7 Nov	−31.4 Nov	−0.1	0.76	0.84	−1.5	3.82	na
Austria	−1.1 Nov	+12.2 Q3	+1.4	0.76	0.84	−1.1	3.82	4.09
Belgium	+14.8 Nov	+6.8 Sep	+2.0	0.76	0.84	0.1	3.87	4.11
France	−36.6 Dec	−43.0 Nov	−1.1	0.76	0.84	−2.6	3.82	4.10
Germany	+206.0 Dec	+129.4 Dec	+4.1	0.76	0.84	−1.4	3.82	4.05
Greece	−43.4 Nov	−28.8 Nov	−7.0‡	0.76	0.84	−2.9	3.82	4.30
Italy	−27.1 Nov	−43.5 Nov	−1.7	0.76	0.84	−3.2	3.82	4.28
Netherlands	+41.4 Dec	+59.7 Q4	+7.6	0.76	0.84	0.6	3.82	4.08
Spain	−112.8 Nov	−103.9 Oct	−8.5	0.76	0.84	0.4	3.82	4.10
Czech Republic	+2.0 Dec	−5.2 Q3	−3.2	21.5	23.9	−4.2	2.59	3.73
Denmark	+6.7 Dec	+6.7 Dec	+2.7	5.68	6.27	3.5	3.99	4.05
Hungary	−2.7 Dec	−6.9 Q3	−5.2	192	211	−7.1	8.16	7.25
Norway	+56.0 Jan	+56.0 Q3	+17.5‡	6.16	6.84	19.3	4.15	4.54
Poland	−4.1 Nov	−6.5 Nov	−2.3	2.98	3.17	−2.5	4.20	5.16
Russia	+140.8 Dec	+95.6 Q4	+6.2	26.2	28.2	6.0	10.50	6.26
Sweden	+20.7 Dec	+26.2 Q3	+6.3	6.96	7.84	2.9	3.22	3.92
Switzerland	+9.4 Dec	+105.9 Q3	+14.0	1.24	1.31	1.2	2.21	2.59
Turkey	−51.9 Dec	−31.9 Dec	−7.0	1.39	1.33	−2.6	18.86	19.19
Australia	−9.5 Dec	−39.5 Q3	−5.0	1.28	1.35	1.3	6.37	5.84
Hong Kong	−17.9 Dec	+19.2 Q3	+9.8	7.81	7.76	1.0	4.27	4.29
India	−51.7 Dec	−13.7 Q3	−2.7	44.1	44.2	−4.3	7.50	8.23
Indonesia	+39.8 Dec	+7.0 Q3	+1.2	9,068	9,225	−0.9	9.08	6.29§
Malaysia	+29.5 Dec	+22.2 Q3	+11.3	3.50	3.72	−4.3	3.68	5.33§
Pakistan	−13.1 Jan	−6.0 Q3	−5.4‡	60.8	59.9	−4.6	10.21	6.76§
Singapore	+33.1 Dec	+39.0 Q3	+24.5	1.54	1.63	0.3	3.38	3.22
South Korea	+16.4 Jan	+6.1 Dec	+0.1	938	974	0.4	4.95	4.94
Taiwan	+10.9 Jan	+26.3 Q3	+5.6	33.0	32.4	−2.2	1.82	2.06
Thailand	+2.2 Dec	+3.2 Dec	+1.3	33.3	39.3	−1.2	5.00	4.69
Argentina	+12.4 Dec	+6.7 Q3	+2.3	3.10	3.07	1.0	9.56	na
Brazil	+45.8 Jan	+13.5 Dec	+0.7	2.10	2.13	−2.2	12.93	6.16§
Chile	+23.9 Jan	+5.2 Q3	+1.0	540	530	4.4	5.04	5.27§
Colombia	nil Nov	−2.3 Q3	−2.0	2,221	2,252	−1.5	6.60	6.18§
Mexico	−5.8 Dec	−1.3 Q3	−0.5	10.9	10.5	−0.4	7.03	7.64
Venezuela	+36.8 Q3	+29.7 Q3	+10.1	3,918	2,676	−3.1	10.06	6.55§
Egypt	−11.1 Q2	+3.5 Q2	+1.4	5.69	5.73	−8.0	8.64	5.40§
Israel	−7.3 Jan	+6.7 Q3	+2.6	4.22	4.72	−2.8	4.48	5.01
Saudi Arabia	+165.7 2006	+90.0 2005	+25.6‡	3.75	3.75	20.4	5.22	na
South Africa	−9.8 Dec	−13.5 Q3	−5.3	7.20	6.06	−2.0	9.40	7.71
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−3.3 Nov	−2.1 Nov	−12.7‡	11.9	13.2	1.3	na	na
Finland	+11.7 Nov	+12.6 Dec	+5.6‡	0.76	0.84	2.3	3.79	4.12
Iceland	−1.9 Nov	−3.9 Q3	−16.2‡	67.5	63.7	2.1	15.02	na
Ireland	+35.3 Nov	−6.5 Q3	−4.6‡	0.76	0.84	0.2	3.82	4.10
Latvia	−4.7 Nov	−3.9 Nov	−19.5‡	0.53	0.58	−1.2	4.37	na
Lithuania	−5.2 Dec	−3.3 Nov	−10.3‡	2.63	2.90	−0.5	3.86	na
Luxembourg	−5.5 Nov	+4.8 Q3	na	0.76	0.84	−0.8	3.82	na
New Zealand	−4.0 Dec	+6.1 Q3	−9.9‡	1.44	1.48	3.5	6.75	5.98
Peru	+8.9 Dec	+1.8 Q3	+1.0	3.19	3.29	0.1	4.46	na
Philippines	−4.4 Nov	+4.4 Sep	+3.8	48.4	51.5	−0.7	5.31	na
Portugal	−23.2 Nov	−17.0 Nov	−7.9‡	0.76	0.84	−3.7	3.82	4.23
Slovakia	−3.1 Dec	−5.4 Oct	−6.2‡	26.1	31.5	−3.0	4.45	4.31
Slovenia	−2.0 Dec	−1.1 Nov	−1.6‡	0.76	0.84	−1.2	na	na

*Merchandise trade only. †The Economist poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

Feb 15th 2007
From The Economist print edition

Markets

	Index Feb 14th	% change on one week	% change on Dec 30th 2005 in local currency	% change on Dec 30th 2005 in $ terms
United States (DJIA)	12,741.9	+0.6	+18.9	+18.9
United States (S&P 500)	1,455.3	+0.4	+16.6	+16.6
United States (NAScomp)	2,488.4	–0.1	+12.8	+12.8
Japan (Nikkei 225)	17,752.6	+2.7	+10.2	+7.7
Japan (Topix)	1,765.3	+2.1	+7.0	+4.6
China (SSEA)	3,050.4	+7.0	+149.8	+159.9
China (SSEB, $ terms)	184.2	+6.7	+185.5	+197.1
Britain (FTSE 100)	6,421.2	+0.8	+14.3	+30.5
Canada (S&P TSX)	13,204.5	+0.5	+17.1	+17.3
Euro area (FTSE Euro 100)	1,331.5	+0.6	+22.3	+36.0
Euro area (DJ STOXX 50)	4,267.0	+0.4	+19.2	+32.7
Austria (ATX)	4,578.5	+0.1	+24.9	+38.9
Belgium (Bel 20)	4,547.8	+0.1	+28.1	+42.6
France (CAC 40)	5,725.8	+0.4	+21.4	+35.1
Germany (DAX)*	6,961.2	+0.7	+28.7	+43.2
Greece (Athex Comp)	4,699.0	–0.7	+28.3	+42.7
Italy (S&P/MIB)	42,898.0	+0.1	+20.1	+33.7
Netherlands (AEX)	508.1	–0.2	+16.3	+29.4
Spain (Madrid SE)	1,658.6	+0.5	+43.5	+59.6
Czech Republic (PX)	1,708.9	–0.3	+16.0	+32.7
Denmark (OMXCB)	461.4	+0.6	+25.4	+39.7
Hungary (BUX)	24,155.8	+0.9	+16.2	+29.4
Norway (OSEAX)	533.8	+0.7	+41.7	+55.8
Poland (WIG)	54,145.9	–1.7	+52.1	+66.4
Russia (RTS, $ terms)	1,890.0	–1.5	+53.3	+67.9
Sweden (Aff.Gen)	384.8	+0.3	+31.1	+49.9
Switzerland (SMI)	9,299.2	+0.1	+22.6	+30.3
Turkey (ISE)	43,256.3	+2.7	+8.7	+5.6
Australia (All Ord.)	5,937.7	+1.1	+26.1	+34.8
Hong Kong (Hang Seng)	20,209.9	–2.3	+35.9	+34.8
India (BSE)	14,009.9	–4.3	+49.1	+52.1
Indonesia (JSX)	1,751.0	–0.8	+50.6	+63.4
Malaysia (KLSE)	1,245.6	+0.2	+38.4	+49.6
Pakistan (KSE)	11,454.8	–2.3	+19.9	+17.8
Singapore (STI)	3,182.2	–1.7	+35.6	+46.8
South Korea (KOSPI)	1,436.1	+0.7	+4.1	+12.1
Taiwan (TWI)	7,809.5	–0.5	+19.3	+18.7
Thailand (SET)	697.8	+3.3	–2.2	+20.3
Argentina (MERV)	2,129.9	+1.4	+38.0	+34.8
Brazil (BVSP)	45,995.0	+3.2	+37.5	+53.0
Chile (IGPA)	13,962.1	+3.8	+51.7	+43.8
Colombia (IGBC)	10,896.4	–0.1	+14.5	+17.9
Mexico (IPC)	28,539.7	+1.5	+60.3	+56.1
Venezuela (IBC)	49,465.3	+9.7	+142.5	+60.1
Egypt (Hermes)	62,547.2	+3.0	+13.0	+13.9
Israel (TA-100)	1,001.7	+1.9	+21.0	+31.8
Saudi Arabia (Tadawul)	7,881.6	+7.6	–52.8	–52.8
South Africa (JSE AS)	26,311.4	+1.5	+45.4	+28.1
Europe (FTSEurofirst 300)	1,547.9	+0.1	+21.4	+35.0
World, dev'd (MSCI)	1,533.8	+0.8	+21.9	+21.9
Emerging markets (MSCI)	928.4	nil	+31.4	+31.4
World, all (MSCI)	379.7	+0.7	+22.6	+22.6
World bonds (Citigroup)	653.7	+0.2	+5.4	+5.4
EMBI+ (JPMorgan)	411.2	+0.6	+11.6	+11.6
Hedge funds (HFRX)	1,305.4	nil	+11.8	+11.8
Volatility, US (VIX)	10.2	10.3	12.1	(levels)
CDSs, Eur (iTRAXX)†	20.7	+0.3	–43.7	–37.4
CDSs, N Am (CDX)†	26.8	+1.4	–42.0	–42.0
Carbon trading (EU ETS) €	1.10	–15.4	–94.8	–94.2

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac.

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Football wealth

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Real Madrid retained its title as the highest-grossing club in football last year, with revenues of €292m ($374m), according to Deloitte's annual Football Money League. Arch-rivals Barcelona climbed to second spot, pulling in €259m after winning the UEFA Champions league, the Spanish title and negotiating exclusive broadcasting rights. The club was 13th in the money league just three seasons ago. Reflecting its fortunes on the pitch last season, Manchester United slipped two places, to fourth. But it is expected to bounce back thanks to a bigger stadium and a new shirt-sponsorship deal. English clubs continue to dominate the top 20, holding eight places to Italy's four and Spain's two.

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